SPECULATIVE FEVER IN THE MARKET ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MARCH 25, 1961 85 CENTS

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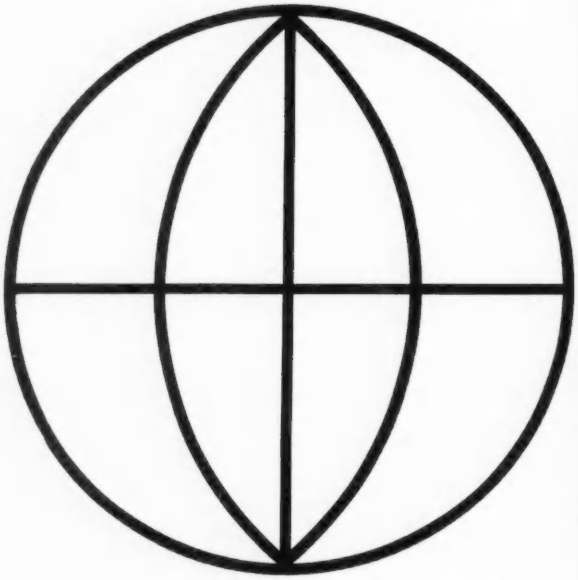

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on four continents

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IN BRIEF	1960	1959
Total Revenues	$357,778,000	$349,473,000
Capital Expenditures	61,764,000	52,367,000
Exploration Expense	31,010,000	31,920,000
Net Income	39,215,000	38,633,000

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Producers · Transporters · Refiners
Marketers of **MARATHON** and **SPEEDWAY 79**
Petroleum Products

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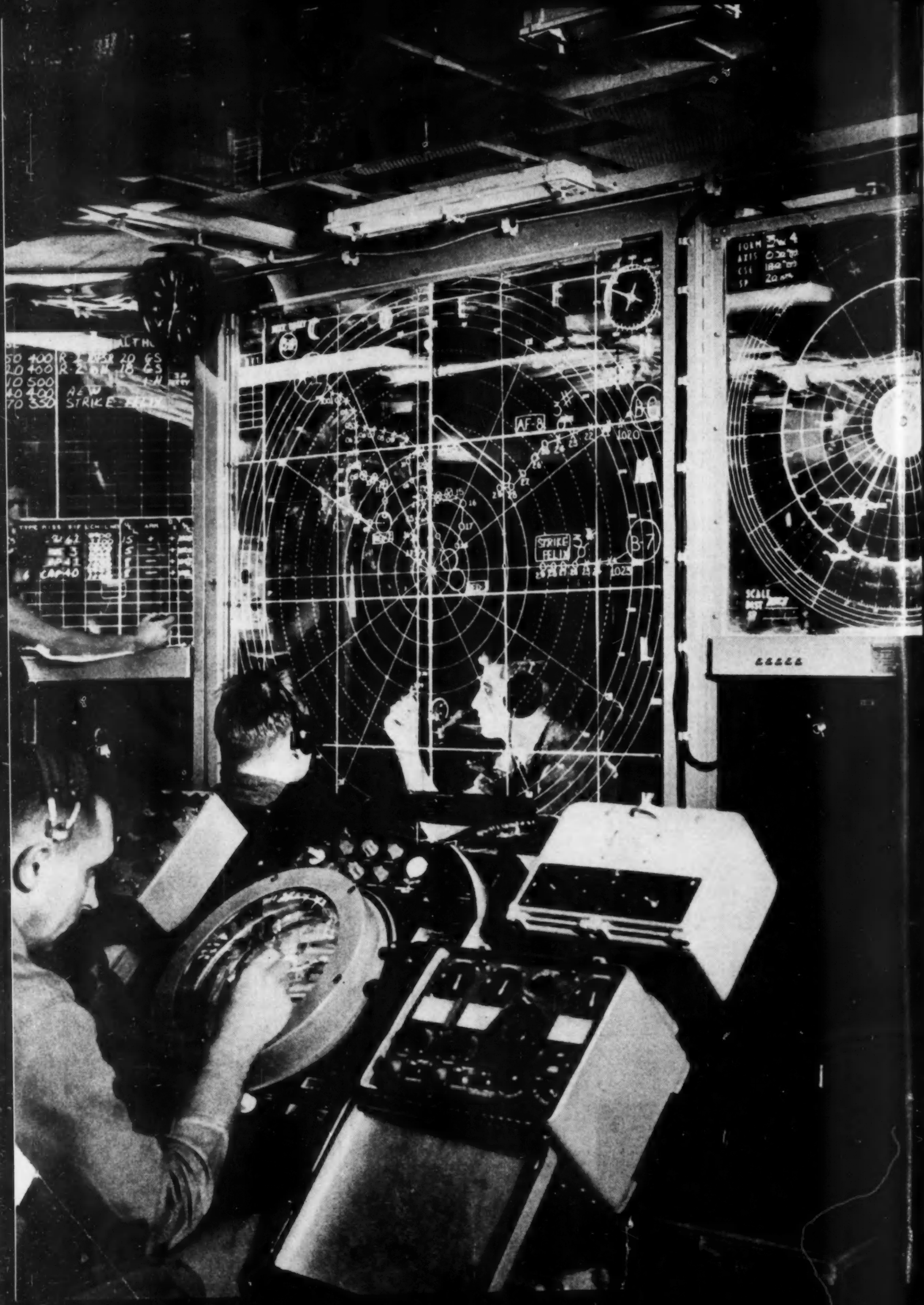

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

NEW VERSION OF "BREAD AND CIRCUSES" . . . The leaders of the Soviet Union have always resorted to spectacular diversions whenever they found their people to be restive, and by such means sought to keep alive their hope for the future when confidence in the regime seemed to be on the wane. It is this technique of distracting the people from their hardships, that has helped the Soviet government to hold them in line.

And now, in the face of the tremendous crop failures — and to take the minds of the people off the number of notches that will have to be taken in their "collective" belt — Nikita lets it be known that the Soviet Union will soon send a man into space and chalk up another scientific achievement that will set the United States back on its heels!

This may be a good show, but there is one thing lacking — and that is how the ringmaster plans to turn this space adventure into food for the people of the Soviet Union!

And having been in Russia, I wonder whether the people still have any illusions about the capacity of their government to provide a better life, or whether, after several decades of brain-washing, they are conditioned to continue to suffer personal privation in the cause of scientific adventure.

At this point it might be a good idea to take another look at the costly adventures into space which Russia has set up as a standard for measuring national prestige. It is natural for her to use this particular yardstick because she has fallen so far behind in the true test — that of providing for the well-being of her people. And we have not only let her get away with it — but have let her set the pace for us. And the cost is astronomical. How foolish can you get?

A small portion of the money already appropriated and to be expended in the future for outer-space adventure would feed, clothe and house untold millions on this earth who are suffering from the cruelties of starvation and the ravages of disease. And, I believe no one would begrudge a cent of the funds expended in such a sound common sense effort.

But, as matters stand today, the Soviet Government is not likely to change its course. The next step will depend on the Russian people themselves, whether they are willing to continue to gratify the ambition of their masters for world power — or decide to live in freedom in a world of free men. Some may think this is hoping for a miracle, but it would not be the first time the miraculous has become reality. And the power of constructive thinking can cause it to happen today.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

As I See It!

By JACK BAME

THE EFFECT ON THE DOLLAR OF GERMAN AND DUTCH CURRENCY UP-VALUATIONS

And the great advantage to the countries concerned.

TWO increases in the official value of monetary units were decreed in early March, the first and most important for West Germany's mark, followed by an equivalent up-grading of the Dutch guilder. The degree of change in value was rather minor—the mark's basic parity changing from 4.20 to 4.00 per dollar, raising its value by about 5%, the guilder's official rate revised from 3.80 to 3.62 per dollar, an increase of just about the same percentage.

The actual German move itself, its amount and its timing, were all somewhat of a surprise to most observers.

This could be explained, in the *first instance*, by the relative rarity of up-valuations—and previous German denials of a change in the exchange rate; *in the second instance*, by the fact that it had been generally thought that the mark was overvalued in relation to most other currencies by more than 5%; and *in the third* case, by the measure coming on the heels of announced progress in German-American talks concerning the dollar, the world payments and aid situations and the acceptance of more of the burden of assistance to the under-developed countries by Bonn.

Why were the currency changes made? What have been the immediate results and what will be the short term consequences? What is the longer range significance of the measures?

WHY? There are two angles of reasoning as to why the mark's value was revised, with at least some degree of overlap: 1) ● the imbalances in the U.S., German, and international payments and 2) ● the domestic economic situation within Germany. Although the Germans officially denied that any pressures were exerted by the U.S. and others for a change in mark value, there is no doubt that Washington, London and the European Economic Community in general were not at all averse to such a move.

The initial reaction was reported as "a small step in the right direction", implying that a greater revaluation would have been even more desirable. **The mark was—and is still considered—to be undervalued.**

Huge and constant export and overall balance of payments surpluses, occasioned by a combination of relatively low wages, high productivity, export tax rebates, import turnover taxes, and a continued substantial inflow of foreign funds—drawn to Germany by high interest rates—added to increases in both official gold and foreign exchange reserves and in liquid funds available for the domestic economy. **These developments took place mostly at the expense of capital and gold outflows from the U.S., which was suffering from comparatively low interest rates and relatively high wage costs.**

On the internal front, the German economy has been in a state of full boom, with an actual shortage of labor and complete utilization of productive facilities. A tight money policy was followed by sharp credit restriction measures in order to control the excessive demand for money—to hold down bank liquidity and to restrain inflationary influences.

But this same program attracted more and more foreign capital, which itself, more than offset the contractive effects of the domestic monetary policy

by broadening the credit base and adding to the expansionary potential. **Thus, a traditional monetary instrument—the discount rate—was ineffective in the face of a sharp internal-external policy conflict, which in this case was far from being relegated to a place as a theoretical example in economic textbooks.**

The Netherlands action was merely a small-scale replica, as a tightening of bank reserve requirements at home to restrict inflationary developments had not prevented exchange reserves in Holland from continuing to rise, and foreign funds from flowing in, mostly into securities such as Philips Lamp and others. In addition, more than 20% of Dutch trade is with Germany, making an alignment to Bonn's move rather automatic.

The Immediate Results and Short-Term Consequences

The initial effect of the German revaluation was reflected in rather hectic European foreign exchange markets, rumors and speculation leading to substantial shifts of funds from one country to another, with results just about opposite from those intended. ● In Germany, more marks were being purchased with foreign funds in anticipation of a new and further increase in the mark's value. ● Buying of Dutch guilders also increased, and the largest switch of funds was into Swiss francs, on speculation of an up-valuation of that currency. ● The dollar fell to its lower trading limits vs. all three currencies. ● The Italian lira was another subject of revaluation talk. ● Some pressure on the British pound, which has its own payments troubles, developed, as devaluation rumors circulated. London's unit subsequently recovered after any devaluation plans were officially and emphatically denied.

Although it is possible that some speculation will continue on anticipation of future currency value revisions, foreign exchange markets should become more settled in a short time and the expected results of the revaluation should take shape. The inflow of funds to Germany should taper off, the recent sharp reduction in domestic short term interest rates there helping to this end. At least some of the profits on the up-valuation, made by those who previously had been switching into marks in anticipation of the move, have been and will be repatriated.

German exports become somewhat more expensive, imports cheaper, thus exerting some anti-inflationary pressure in Germany and tending to reduce the payments surplus at the same time. Competitive exports of European countries and Britain, as well as their tourist income, should be helped.

► As far as the U.S. is concerned, the mark revaluation will be of only minor effect, in mitigating the outflow of short-term funds to Germany, and presents no basic solution to our payments problems. However, together with other cooperative moves, it represents further progress toward free world policy synchronization in the monetary and economic spheres.

Longer-Range Significance

The most interesting aspects of the revaluation measures are longer-range in nature. The mere fact that the upward currency changes took place at all, might be regarded as a signpost that nations will not be overly shy in revising the international parities of their monetary units in the future, on a multilateral consultation basis, as an instrument to deal with imbalances in their domestic economies.

There are several aspects to this development:

1) ► central banks will have another effective tool of credit control more readily available, giving them more efficient means of managing their economies;

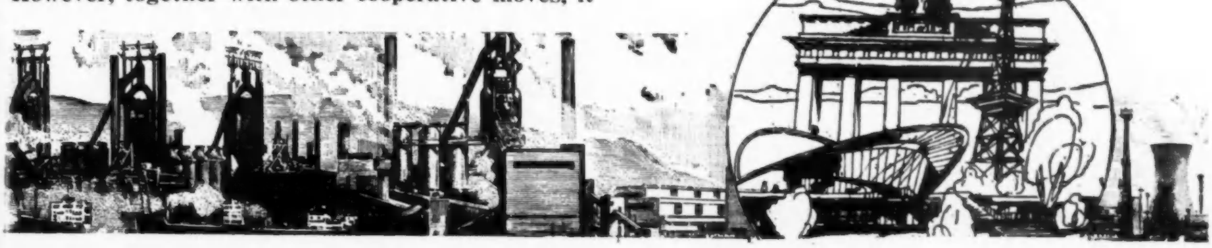
2) ► speculation in gold could be less attractive, as the possibility of both upward *and* downward changes in currency values would entail the chances for a loss in principal on gold "investments", rather than only a possible gain or a loss of potential interest while holding the metal;

3) ► on the other hand, a period of uncertainty as to changing currency values could persist, intensifying short-term movements of currencies from one country to another on speculation of new parities, serving as a disruptive influence in foreign exchange markets;

4) ► if this happened, the possibility of a widening of upper and lower trading limits for currencies might be explored, which would serve as a self-corrective to reduce speculation and give additional flexibility to central bank managers.

To Sum Up

The German and Dutch revaluations represent a small but constructive and symbolic step toward more integrated plans for free world economic cooperation. Combined with a more equitable assumption of assistance and development burdens by surplus payments countries such as Germany, Italy, Japan and others, and a coordination of monetary policies where possible, the currency measures are a contribution towards a long-term structural improvement in the international payments imbalance. But they have not at all obviated the need for basic corrective measures and policies on the part of the U.S., Britain and other leading free world countries —including West Germany—to adapt further to the needs and realities of a changed distribution of western financial resources in an era of freer international money movements. END



Speculative Fever In The Market

More people are "sold" on common stocks than ever before, and confident that the start of business recovery is near, but this prospect has already been substantially discounted. Yet, although stocks are high, they are more likely to go further than to fall seriously at present. A prudent, selective policy remains in order.

By A. T. MILLER

In a highly mixed market, stock prices gained moderately on balance over the past fortnight. The industrial average drifted mildly lower during most of the period in a dip of roughly 13 points from the March 6 recovery level of 674.46 but more than made it up by the end of last week, mainly in a Thursday-Friday spurt in heavy trading volume. The close was at a new recovery high of 676.48, only a nominal percentage under the all-time peak attained by "the Dow" in early January, 1960.

After about four weeks of fairly narrow movement, in consolidation of relatively sharp prior gains since last Autumn, utilities rose steadily in a further succession of new postwar highs. The rail average remained in the approximate 4-point range held since mid-January, despite a rebound of 2.58 points in last week's two final sessions.

If institutional demand has become somewhat more restrained and conservative at higher and higher market levels — as seems probable, since fund managers are well aware of increasing excess in stock valuations — that is clearly not yet so of public speculation. The brokerage house board-rooms throughout the country are crowded daily with people avid for tips, excited about prices, not much interested in investment values. Even more phenomenal, speculation in many over-the-counter stocks — especially issues of small companies which few people ever heard of not so long ago — now approaches mania.

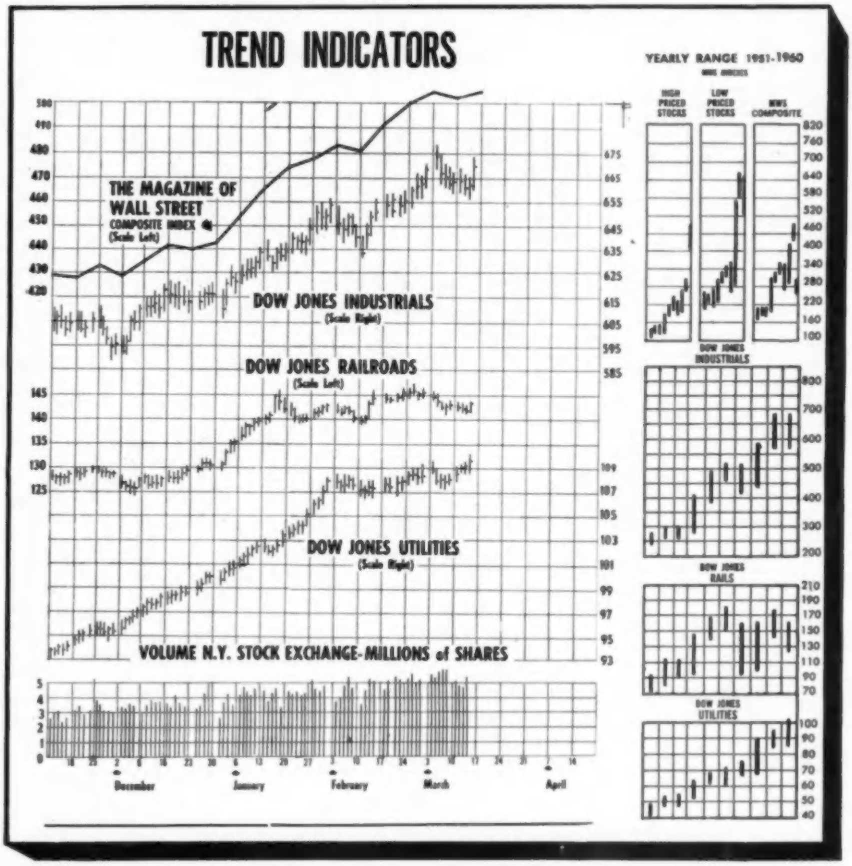
Brokers and dealers are doing a booming business, but some have qualms about the speculative fever that they see and are frank enough to say so. An apt comment by one prominent Wall Street house is this:

"The market has come to look more and more like a fast day at Hialeah. A great part of this play exists not in equities of solid value but in low-priced unlisted stocks about which there is often little reliable information available. To call these stocks low quality would in many cases be charitable."

Deterioration In Technical Position

But while all sorts of stocks "look good" to the public, there are some indications of a weakening technical position. One is the relatively greater recent

rise in share turnover and speculative interest than in the broad level of stock prices. Another is seen in sharp day-to-day gyrations, both ways, in an increasing number of stocks. A third, which could prove significant, is a decreasing total of daily new highs in individual stocks.



As was noted here two weeks ago, there were 147 new 1960-1961 individual highs recorded on February 9, maximum number so far on the market rise from last October's low. With the industrial average over 20 points higher by March 6, this figure was down to 101. On strength last Friday it was 121 by our count (the daily tabulations have now made the usual mid-March shift to current-year highs which, of course, greatly exceed 1960-1961 highs).

It should be emphasized that we do not argue, on the basis of partial technical evidence, that the immediate position is seriously vulnerable, even though derioration in the new-highs indicator in the summer of 1957 preceded a 101-point fall by the industrial average; even though price-earnings ratio are very high; even though speculation is more rampant than in some time.

The expected business revival, although largely discounted, is still ahead — not here or well advanced. A big market decline at this stage — at what may be the business low point — would be as unprecedented as are present average stock valuations. Stocks are in vogue, and there is plenty of cash around. In this environment it is not possible to say that a market, already high as judged by all past standards, cannot go still higher — cannot go from extreme to greater extreme.

● Every favorable straw in the business news, even if negative, is now seized on as bullish. That is so of the Reserve Board report that the production index for February held at the January level of 102, off little over 8% from the January, 1960, peak. It is so of the report that retail car sales in the first 10 days of March were up 19% from a month earlier, but still down 9% from a year ago.

● It is so of sharp late-February and early-March gains in department store sales, although they are adequately explained by better weather and the approach of an early Easter. It is quite possible that consumer spending psychology has become somewhat more confident, in reflection of stock market performance and hopes of better economic conditions ahead, but it will require more than a pre-Easter gain in trade to prove the case.

The consensus is that the recession is either over or virtually so, that levelling out or small improvement is likely in the second quarter, and that business will be at a substantially better level by the fourth quarter. This view could well be about right — but the market is discounting not only second-half and 1962 recovery but a new boom, while basis for the latter remains questionable and hinges perhaps decisively on the still unanswered question of how much borrowed money the Government will pour into "the public sector" of the economy.

● In the "private sector", potentials do not appear dynamic for capital goods or consumer durable goods. Based on 1958 recession experience, corporate earnings might rise 15%-20% in annual rate from the low first quarter to the fourth quarter, despite keen competitive conditions. Translated roughly, this could mean annual-rate earnings around $28 on the Dow industrial average in the first quarter, $33 in the fourth quarter. But the average is priced at 20.5 times a $33 earnings rate — which would remain much under the 1957 full-year peak of $36.08 or the $35.78 seen as far back as 1955.

It should be repeated that what we have had for five years has been progressive inflation of price-earnings ratios — not profit growth. The $64 question is whether, when and under what circumsances there can be growth of aggregate industrial earnings. Without it, the market cannot rise endlessly. Otherwise, stocks cease to be investments having some rational relation to earnings and become chips in a gambling game. We continue to advise holding positions in favored issues, caution and selectivity in new buying. — Monday, March 20.

LABOR LORDS ROOT FOR 'CENTRAL' GOVERNMENT...MORE TAXES

—At Their Convention at Bal Harbour

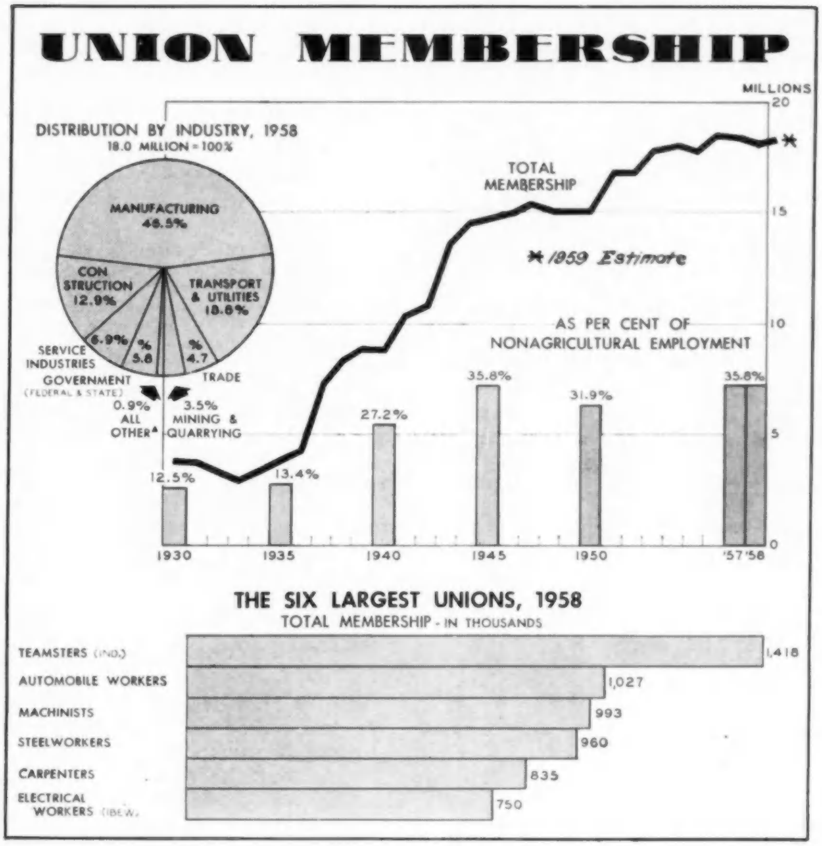
By NORMAN A. BAILEY

- **Is treating the recession as a deep depression designed to produce anxiety and confusion — and pleas for greater Federal aid and control?**
- **Breaking down the causes of unemployment — building new rigidities unnecessarily**
- **Labor leaders decide on how our government should spend its money — what kind of taxation industry — and we as individuals should pay**
- **What cooperation can we expect from unions — where they stand on corruption in their own ranks**

IT has often been observed that "the power to tax is the power to destroy", and the statement is certainly true. Recent developments indicate that an equally true statement would be that "the power to legislate fiat wages is the power to destroy"—to destroy industries, export markets, the free play of the market economy, and free enterprise itself.

The vast monopoly power held today by organized labor in this country has few counterparts in industry. Those industries which do tend to monopoly are strictly controlled by various governmental bodies—the rates they can charge and the profits they can make are set out for them and enforced by the coercive power of the government. **Other industries are policed, albeit imperfectly, by the forces of free enterprise and competition. Yet monopoly labor can set any scale which it can impose on industry, not only without regulation, but at times with the active support and aid of the government.**

So many rigidities have been built into our economic system—through special privilege for certain groups at the expense of other groups (such as the farm price support program); through ever greater government intervention in the economy, and participation in the national income; through



favoritism practiced by government in favor of certain groups over others; through a tax system which penalizes initiative and rewards consumption and evasion—that the ability of the economy to respond to market forces and advancing technology is greatly impaired, giving rise to much shocked exclamation and finger-pointing. The situation is very similar to that of a man who heaves a monkey-wrench into a machine, and then stands back, shakes his head sadly, and exclaims, "You see? I told you so, the machine doesn't work".

There is a good deal of such head-shaking going on now about the rate of unemployment, although no one seems to mention that in absolute numbers, employment is also rising.

No better demonstration of the vast influence and power of the federal government in the field of information could be wished for than is provided by the economic and labor information emanating from Washington during the last few weeks. The bad news, or anything which can be constructed as bad news, is played up—the good news is correspondingly played down, and the picture which results is one of the near demise of an economy, gasping for life and imploring a compassionate government to throw it enough bones for it to survive.

Back of Unemployment

As much as it is humanly possible to know all the causes for any phenomenon, the real reasons for the present relatively high rate of unemployment appear to be the following:

►The war babies of the forties coming of age are now flooding the labor market. Much is made of the great influx of this group into the colleges and universities. No one seems to have noted that the majority of them don't go to college. On the contrary, they are now looking for jobs. An industry geared to absorb a certain number of new workers per year is suddenly faced with a much higher annual increment.

►There is a large and growing group of unemployables, the group Marx called the "lumpen-proletariat", more than willing to live on the excess fat in the economy created by others. The reasons for the growth of this parasitic group is not hard to find—the philosophy that you can get something for nothing has permeated all strata of American society, and every year the government seems to them to provide more proof that they are right.

►Rigidities of cost largely imposed by labor unions have resulted in a situation where employers now have no option but to lay off men and/or close plants when sales drop and profit margins are squeezed. Steelworkers in Wheeling, West Virginia, rather than not work at all, have offered to work for anyone at one-half to two-thirds of their previous union wage scales. The leader of the movement, a long-time United Steelworker's member, has made some very revealing statements, among them: "Steel wages are too high today. The union has gotten them up too far.", and "In the steel mills, when there isn't any incentive plan, the men don't do a real day's work.".

►Discriminatory tactics of the unions themselves, particularly exclusiveness. In many cases skilled men cannot get jobs unless they are union members and cannot join the union unless they have jobs. The purpose of such exclusivity, of course, is to cause a shortage in supply, and thus keep wages artificially high for those who do have jobs. Any attempt to cause artificial shortages in the stock or commodities markets will bring immediate retribution and punishment, but the unions practice the same discrimination with absolute impunity.

►Finally, and most important, the shifting and readjustment of the economy. The rate of steel production is pointed to as proving the existence of a recession, but no one seems to point to the records which are being established in the chemicals and plastics industries. That flounder-

ing giant, the oil industry, is beginning a slow decline, but the electronics companies are just beginning their rise.

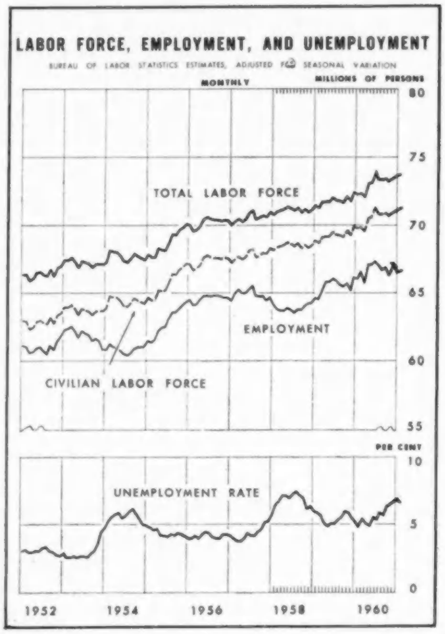
In other words, capitalism is at work, creating wealth through technological and scientific advance and the formation of capital—capital which naturally gravitates toward those industries which show the greatest potential for growth, unless artificially diverted to areas of the economy favored by the government in its ill-advised attempts to interfere. Such shiftings of the economy occur periodically, and when they stop happening it will mean that the free economy has been completely superseded by governmental direction.

Building the Rigidities

These, as I see it, are the reasons, or at least some of the more important reasons, for the present rate of unemployment. If these *are* the reasons, then practically every step which the Kennedy administration proposes to take to alleviate the situation will, on the contrary, aggravate it, for they are all directed towards building in still further rigidities, under the smokescreen of "increasing purchasing power". The hoary fallacies of Keynes, born in depression and nurtured in the secluded halls of academe, rise to haunt us on every side as our fresh young administration vigorously pursues will-o-the-wisps, because dealing with the Labor Unions has become a highly sensative political matter.

The Labor Lords Hold Court at Bal Harbour

The AFL-CIO Executive Committee, representing the bulk of union labor (although Hoffa's fragrant Teamster's Union seems to have started a one-union campaign to surpass it), recently met in the sunshine of Bal Harbour, Florida, to map strategy, make plans, resolve disputes and pontificate on all the major problems of domestic and foreign policy. The weather must have been envigorating, for the Executive Committee plunged into its tasks with a right good will. There is hardly an issue of public policy which escaped its attention, and it is interesting to note that the Kennedy administration was actually chided for not being sufficiently receptive to labor's ideas and wishes.



LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
BUREAU OF LABOR STATISTICS ESTIMATES, ADJUSTED FOR SEASONAL VARIATION

This is particularly surprising, since the Committee had as its distinguished guest the Secretary of Labor, Arthur J. Goldberg, once special counsel to the Committee. Goldberg expressed his regret that the administration program did not meet with the complete approval of the union movement, but on the whole his homecoming appears to have been a jolly event enjoyed by all. The trend towards appointing special pleaders to cabinet positions, men who are deeply committed to one or another group with which they will have to deal in their official capacities, is an extremely dangerous one.

In general, the resolutions of the Committee were predictably, almost boringly, uniform in their support of every measure which would increase statist control over an ever-greater portion of the economy, and which would increase centralized control by the federal government over the local subdivisions. Health, housing, education, all are to be stimulated with massive government aid.

The Kind of Taxation We Should Have As the Labor Lords See It

● In order to finance these programs, the Committee commendably does not look to deficit financing. ● Rather it recommends a whole series of tax reforms designed to increase the federal revenues by some eighteen billion dollars per year.

● Kennedy is reproved for proposing changes in the determination of depreciation allowances for tax purposes, for, as the Committee says, such changes will provide "unnecessary benefits for business at the expense of other members of the taxpaying public."

● The Keynesian fallacies are pulled out once more and put to work: "It seems clear to us that the economy is in the throes of today's recession not for lack of adequate business investment, but for lack of adequate purchasing power and consumer markets". ●This although consumption is in every way encouraged and saving discouraged by the present tax structure.

The present entirely inadequate allowances for dividend income are attacked as signs of special privilege for a presumably plutocratic share holding class (the great proportion of which, of course, is made up of people with modest incomes). ● The Committee speaks of "the special treatment for dividends", and states that "This unique treatment robs the Treasury of close to $400 million a year."

● That there is special treatment for dividends is undeniable—however in fact the special treatment consists in the entirely indefensible double taxation to which dividend income is subjected, which, together with the very high rate of corporate taxation, places tremendous burdens on the form of business association which can most readily provide the venture and investment capital so essential for future growth.

● "The cancer of capital gains" is attacked, and repeal of the depletion allowance for the oil, gas and mineral industries is advocated. The Committee states that such coporations should be allowed to deduct no more than the depreciation allowance received by other indus- *(Please turn to page 49)*

PART THREE

WHAT 1960 ANNUAL EARNINGS REPORTS REVEAL

—Looking to 1961

By FREDERICK G. LYONS

—Covering a number of interesting pace-setting companies that came in late

1960, as everyone even slightly acquainted with investment matters is by this time fully aware, was not a happy year for business corporations. Sales of manufacturing organizations generally advanced about 2½%, a margin too narrow to cover the built-in expense escalation. Many companies, it is true, carried out vigorous economy campaigns, but usually not until late in the year, too tardy to affect 1960 results materially. The disagreeable results included extremely widespread profits declines. This might not have been so upsetting if earlier hopes had not been so optimistic, but as it was, the dismal earnings contrasted sharply with the buoyant predictions issued by so many observers a year ago.

Preliminary reports of a number of prominent companies were summarized in two earlier issues of this magazine (February 11 and 25). By this time a majority of companies with calendar-year fiscal periods have been heard from, and early conclusions as to composite corporate performance have been confirmed. Interesting variations may be noted, however, among some of the companies which have only recently reported, while unusual factors, such as special charges or adjustments in capitalization require a second glance at the reported earnings of other organizations. Composite results may be significant to the economist, but investors must look at companies individually, not as members of a group.

Confections, Soft Drinks Unaffected

The picture of last year's disappointing results should not, however, be exaggerated by too much repetition. There were some companies—and industries—which resisted the trend, expanding sales sub-

stantially, maintaining or even broadening profit margins, and achieving higher final net income. People do not ordinarily sacrifice their minor indulgences in a mere recession, and may even expand them in the process of discarding more expensive luxuries. Consequently, confectionary, chewing gum and soft drink companies enjoyed comforting results last year.

Sales of **American Chicle,** for example, advanced 2½% from $68.7 to $70.3 millions, and the profit margin was also lifted slightly. The advance in per share net to $3.35 from $3.21 for 1959, despite a slight stock dilution during the year, represented the ninth consecutive annual gain in a trend initiated in 1951. The first general increase in the price of gum, 9%, in 43 years naturally played an important part in these results, but Chicle has also been aggressive in introducing and expanding the distribution of such confections as Roloids and Certs.

This company's larger competitor, **William Wrigley,** enjoyed an even broader sales gain, although its profit margin slipped a trifle, as a result of stepped-up advertising outlays, and per share net consequently advanced only nominally to $5.21 from $5.13 a year earlier. Despite the price increase noted above, retailers are holding the line on chewing gum, and the familiar 5¢ packet is not likely to become obsolete within the foreseeable future. The foreign market, where the chewing habit is as yet barely developed, offers both of these companies an exceptionally attractive opportunity.

In a slightly different category **Beech-Nut Life Savers,** firmly entrenched with its namesake products in both the quality food and candy markets, translated a 2½% advance in sales volume and a narrow improvement in the operating ratio into a pleasant gain to $2.80 from $2.53 in net earnings per share. Stockholders received a tangible recognition of this accomplishment in the form of an increase in the quarterly dividend, from 40¢ to 42½¢, during the year. A further early increase is unlikely, as the company is conserving capital for further expansion, but the consistent earnings improvement during each quarter of 1960 put Beech-Nut in extremely exclusive company.

In the soft drink field, where purchases are almost invariably made on impulse, **Coca-Cola** enjoyed an exceptionally sharp sales advance of 13½% to $502 millions, a new record peak by a wide margin (although results are not comparable with earlier years, as they now include Minute Maid). After many years of concentration upon its single famous product, Coca-Cola has changed its look and is branching out into other flavors. Reorganization expenses did cut down its profit margin, but did not prevent a modest gain to $2.87 a share last year from $2.79 in 1959. Naturally, a hot summer would be a blessing for this bottler, but its continuing prosperity is by no means dependent upon the vagaries of the weather.

Cigarettes Experience Growing Demand, Shifting Brand Preferences

Along with other cigarette manufacturers, **R. J. Reynolds** continued to benefit from the fact that more Americans were lighting up in 1960. This well-run company established new highs in sales and profits. Despite the fact that tastes continued to shift from the non-filter regular-size cigarette to filter varieties, Reynolds has had no trouble in adapting to the market, giving proof of its managerial flexibility. With Camel among the regulars and Winston in the filters, this company boasts the two leading sellers in their class.

Lorillard, the hero of an amazing comeback story in recent years, stubbed its toe slightly in 1960, however. With sales slightly lower and margins a shade narrower, earnings fell to $4.07 a share, from $4.20 the year before. Behind this performance was an increase in volume for king-size Kent, but poorer showings by regular-size Old Gold Straights and Spring cigarettes. In looking at the 1960 record of Lorillard, a slight improvement in fourth quarter earnings, compared with the previous three-month periods, can be observed, and this may be a favorable portent for 1961.

Drugs Awaiting New FDA Releases

Although, unlike chewing gum and soft drinks, people do not purchase drugs of the ethical variety if they can help it, yet health is so highly esteemed that this industry enjoys an even more rapidly growing market. Profit margins, however, are typically so wide that they incorporate an accordion-like effect which means that dollar sales can shrink even while physical volume continues its rapid growth. Dollar sales for most drug manufacturers did not shrink last year, but the advance was the narrowest in a number of years.

Merck sold $218.1 million worth of drugs, a narrow gain over the $216.9 million in 1959, and yet earnings declined to $2.57 a share in 1960 from $2.78 the year before.

Finally, to complete the sad tale of the cost-squeeze for this particular group, the famed **Upjohn Company** was unable to capitalize upon an increase in sales of about $2.5 million, with the result that net drifted down to $1.62 a share in 1960 from $1.65 the year before.

Of course, there is always an exception to such a story, and this time it is supplied by **Pfizer.** This former bulk manufacturer who switched so successfully into its own packaged pharmaceuticals, did well, with a 6½% sales advance to $269 million, a fully maintained profit margin, and a narrow advance in net income per share despite a minor dilution factor during the year. The company's recent decision to call its preferred stocks will redound to the eventual benefit of the common shareholders. Although competition in the ethical drug field is constantly growing more intense, and the expected revival of the Kefauver investigations may also hurt, the probable creation of a federal medical care program in some form will boost drug sales, while the expected early release of a number of new drug applications pending before the Federal Drug Administration should put some wider-margined lines on the market.

Even the proprietary branch of the drug industry, which usually fares well because of close relationship with consumer spending, experienced some trouble last year.

Revlon enjoyed a 9% sales gain, which it transformed into an 18¢ profit advance to $4.37 a share, and its aggressive acquisition program promises

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales (Millions) 1959	Net Sales (Millions) 1960	Net Profit Margin % 1959	Net Profit Margin % 1960	Net Per Share 1959	Net Per Share 1960	Net Per Quarter 1960 1st	Net Per Quarter 1960 2nd	Net Per Quarter 1960 3rd	Net Per Quarter 1960 4th
Abbott Laboratories	$122.6	$125.9	10.5%	9.8%	$3.32	$3.16	$1.16	$ .32	$1.05	$ .63
Allis-Chalmers Mfg.	539.6	530.0	4.2	2.0	2.47	1.12	.28	.55	.13	.16
Aluminium, Ltd.	282.1	N.A.	5.4	N.A.	.79	1.28	.29	.43	.33	.23
American Chicle	68.7	70.3	13.3	13.6	3.21	3.35	.80	.87	.91	.67
American Viscose	239.8	206.6	6.3	3.3	2.98	1.45	.41	.36	.11	.55
Anaconda	109.8	86.0	5.3	5.3	5.53	4.30	1.20	1.33	1.21	.55
Beech—Nut Life Savers	115.5	118.2	7.0	7.6	2.53	2.80	.47	.67	.73	.93
Bigelow-Sanford	71.9	74.2	2.6	1.9	1.73	1.28	.36	.57	.21	.14
Blaw Knox	161.3	192.8	3.6	2.1	3.12	2.20	.86	.59	.55	.20
Bridgeport Brass	173.0	142.1	4.1	2.0	4.40	1.65	.64	.34	.21	.46
Brunswick Corp.	294.8	359.8	9.4	10.5	1.70	2.28	.14	.39	1.15	.61
Celanese Corp. of Amer.	265.2	264.1	8.5	7.5	2.44	2.07	.50	.55	.46	.56
Chrysler	2,642.9	3,007.0	d2.0	1.0	d.62	3.61	1.25	1.45	.15	.77
Clark Equipment	208.1	196.7	5.9	3.4	2.61	1.41	.44	.40	.31	.27
Coca Cola	441.3	501.9	8.6	8.3	2.79	2.87	.45	.80	1.04	.57
Colgate-Palmolive	581.9	576.3	4.3	3.7	3.11	2.53	.50	.66	.73	.64
Columbia Broadcasting	444.3	464.6	5.6	5.0	3.01	2.77	.81	.70	.34	.92
Columbian Carbon	76.1	80.5	8.0	8.1	3.77	4.06	1.30	1.19	.82	.75
Commercial Solvents	70.3	62.3	4.0	7.7	1.02	1.70	.40	.53	.36	.40
Consolidation Coal	282.0	N.A.	7.2	N.A.	2.23	2.10	.55	.51	.30	.73
DuPont	2,114.0	2,143.0	19.8	17.8	8.92	8.10	2.10	2.21	1.96	1.82
Eastman Kodak	914.1	944.7	13.6	13.4	3.24	3.30	.63	.80	.84	1.03
Electric Autolite	220.7	221.8	4.8	2.5	4.41	4.05	1.63	1.59	.17	.57
Fansteel Metallurgical	31.0	30.8	8.6	6.1	3.05	2.09	.78	.66	.13	.52
General Amer. Transp.	199.6	250.7	8.5	7.6	3.10	3.44	.91	.94	.82	.78
Georgia-Pacific Corp.	210.5	222.0	7.1	6.9	2.51	2.45	.62	.87	.61	.35
Goodrich (B.F.)	771.5	764.7	4.8	3.9	4.18	3.33	1.01	1.01	.66	.65
Industrial Rayon	62.0	47.3	1.3	d7.0	.45	d1.80	d.27	d.49	d.54	d.50
Ingersoll Rand	161.5	185.7	15.2	13.3	4.06	4.09	1.01	1.01	1.01	1.06
International Nickel	457.7	505.1	18.6	15.7	2.92	2.76	.85	.65	.64	.62
Link-Belt	152.5	149.6	4.5	4.1	3.65	3.25	.75	.78	.63	1.09
Lorillard (P.) Co.	490.8	487.3	5.7	5.6	4.20	4.07	.84	1.04	1.03	1.16
Mack Trucks	297.3	260.0	5.3	4.5	5.71	4.10	1.02	1.29	.75	1.04
Martin Co.	523.7	651.2	2.5	2.6	2.17	2.71	.57	.67	.73	.74
McGraw Edison	284.6	311.7	5.2	4.4	2.69	2.37	.57	.68	.63	.51
Merck & Co.	216.9	218.1	13.8	12.7	2.78	2.57	.69	.68	.65	.55
Minnesota Mining & Mfg.	500.6	549.6	12.6	12.9	1.25	1.38	.31	.32	.35	.40
National Gypsum	226.2	227.1	11.3	10.3	4.56	3.66	.63	1.12	1.25	.68
Olin Mathieson Chemical	702.0	689.6	5.3	5.0	2.80	2.59	.64	.76	.58	.61
Pfizer (Chas.) & Co.	253.6	269.3	9.7	9.7	1.52	1.58	.43	.35	.35	.45
Pure Oil	621.4	654.4	4.6	4.9	3.32	3.29	.58	.81	.65	1.25
Revlon	124.9	136.3	8.6	8.3	4.19	4.37	.97	1.03	1.00	1.37
Reynolds (R.J.) Tobacco	1,218.8	1,418.2	7.2	7.4	4.45	5.21	1.15	1.27	1.34	1.45
Standard Oil of Ohio	368.0	371.6	6.7	6.6	5.02	4.94	1.01	1.18	1.32	1.43
Sunray Mid-Continent Oil	450.9	463.7	9.7	8.8	2.25	2.10	.48	.47	.53	.62
Texas Gulf Sulphur	63.6	58.9	20.9	23.2	1.33	1.37	.27	.34	.34	.42
Timken Roller Bearing	262.1	244.8	11.3	7.8	5.60	3.60	1.79	1.10	.20	.51
United Carbon	62.1	56.7	10.6	9.8	6.36	4.24	1.55	1.30	1.01	.76
Upjohn Co.	156.9	159.4	14.8	14.2	1.65	1.62	.42	.33	.49	.38
Warner-Lambert Pharm.	190.6	197.8	8.5	8.3	3.06	3.10	.75	.65	.82	.88
Western Union Telegraph	276.1	276.0	5.9	4.1	2.59	1.80	.43	.50	.34	.53
White Motor	333.1	282.6	4.2	3.1	6.94	3.10	1.22	1.19	.54	.15
Worthington Corp.	180.3	194.4	4.5	4.0	4.81	4.42	1.02	1.15	.84	1.41
Wrigley (Wm.) Jr., Co.	92.5	100.5	10.9	10.2	5.13	5.21	1.12	1.28	1.58	1.24

d—Deficit.

N.A.—Not available.

further interesting developments.

Colgate and **Procter & Gamble** were covered in Part II of this series.

Elsewhere, **Warner-Lambert** managed to show improved earnings in 1960, turning its operation around after mid-year and reporting subsequent quarterly profits improvement. The fact that the company was able to end the year on a rising note is a favorable augury for 1961.

Oil Improvement Not Uniform

Outside of the consumer groups, the petroleum industry also fared well last year. The performance of **Pure Oil** can be cited as a typical example. Its sales advanced to $654 million from $621 million in 1959, while profit margins also became a little more healthy. Final results, a narrow decline in net per share to $3.29 from $3.32 in 1959, are actually misleading; the explanation is the acquisition of Woodley Petroleum during the year and the resultant greater number of shares outstanding.

All oil companies did not share uniformly in last year's recovery. **Sunray Midcontinent** and **Standard Oil of Ohio,** for example, both reported lower net income in the face of higher sales, with thinner profit margins the only clearly identifiable culprit for the poor showing.

No Progress for du Pont

Although it continues to enjoy one of the widest profit margins in its industry, giant **du Pont** slipped back two percentage points on a narrow, 1% gain in sales last year, and this cut net to $8.10 from $8.92 a share. The dividend was consequently shaved to $6.75 from $7 a share in 1959, and it is still only very narrowly protected. Du Pont has now been unable to show any net earnings improvement since 1955, so that its former growth attributes are certainly tarnished. The effects of competition in this field may be evidenced by President Greenewalt's statement that physical sales last year were up 4% but an average decline of 3% in selling prices sliced the gain to the narrow proportion stated.

The fifth largest chemical manufacturer, **Olin-Mathieson,** performed even more poorly in respect to sales, which fell 2% to $690 million, but by dint of maintaining its much lower profit margin pretty well it limited the drop in net per share to $2.59 from $2.80, and even 5¢ of this reflected a write-off of its Cuban assets.

Curiously enough, two apparent "twins", **Columbian Carbon** and **United Carbon** showed sharply contrasting results; United suffered a 9% sales decline which transformed itself into a sharp reduction from $6.36 to $4.24 in net earnings per share, whereas Columbian lifted sales, profit margin and earnings (to $4.06 a share from $3.77) alike. It must be conceded, however, that the profit improvement was materially assisted by the absence of a special charge for the settlement of gas sales price claims for prior years, in 1959.

Texas Gulf Sulphur is a natural resource company which was able to do well in 1960, but achieved its profits improvement last year by widening margins in a year when the reverse was generally true.

In the chemical industry the real success story was written by one of the smallest members, **Commercial Solvents,** which despite a substantial decline in sales, boosted net per share to $1.70 from $1.02 in 1959. A definite program of upgrading products and disposing of low-profit items has produced tangible results here, although, again, the termination of special charges against Canadian properties contributed to the results just described. But the company is clearly awakening after a long period of somnolence.

Some Exceptions in the Machinery Group

Sales declines of some magnitude were the rule in the machinery industry, although conspicuous exceptions appeared. **Allis-Chalmers,** on a modest decline in sales, suffered a drop in profit margin to less than half of 1959's 4.2% ratio, and net per share was slashed similarly to $1.12. As this does not cover the partially restored $1.50 dividend that rate obviously cannot be considered secure. Allis's difficulties may be attributed to a variety of reasons, rather than any single major occurrence.

Clark Equipment was only slightly less severely affected, with net per share dropping to $1.41 from $2.61 in 1959. With reduced inventories representing one of the most prominent features of the current recession, demand for lift-fork trucks and other materials handling equipment has been sharply reduced.

Link-Belt, a leading manufacturer of power transmission machinery, was less severely affected, with sales down only 2%, the profit margin fairly well maintained, and the decline in net per share, to $3.25 from $3.65, held within reasonable proportions. Material improvement must await a resumption of capital expansion by heavy industry, but the current widespread unemployment suggests some slow-down in the introduction of labor-saving machinery.

Several other companies, notably **Blaw-Knox** and **Worthington,** managed to boost sales substantially and still were forced to endure earnings declines of fairly substantial proportions. Blaw-Knox's particular burden consisted largely of special charges in connection with the construction of missile launching sites, which should be absent next year.

Ingersoll-Rand ended the year in considerably better shape than many analysts had expected by lifting sales a substantial 15% to $186 million, although this strong start was diluted to a mere 3¢ a share advance in net income.

General American Transportation, which could be considered as overlapping the machinery field, enjoyed a rare success last year, with a 25% leap in sales, transformed into a somewhat narrower, but still impressive advance to $3.44 from $3.10 a share in net income. The car-leasing division here provides a stable earnings base, while the company is an active participant in the rapidly growing piggyback field and has also just inaugurated full-scale operation of its new, Pyzel process of cement-making.

An even more popular success story was written by specialty manufacturer **Brunswick Corporation,** whose business needs no description. Sales volume increased 22%, to $360 million, and net per share in slightly broader measure, to $2.28 from $1.70. As yet, Brunswick's momentum shows little sign of running out.

Little Cheer Among Textiles

The textiles showed *(Please turn to page 44)*

A MOST REVEALING RECORD of "INSIDER" TRANSACTIONS to DATE

By ROBERT B. SHAW

► ***Covering transactions by officers of individual companies in a number of industries — and where it has any special meaning as to the outlook for the price of the shares***

AS readers of previous articles in the present series know, insider sales almost invariably exceed purchases (under calculations such as we make here, when stock bonuses and purchases under option are excluded from the buying side). In these circumstances, the ratio of insider selling to buying, supplies an important clue to the industrial and earnings outlook for individual companies, and, at the same time, added together—provide an insight into the composite executive attitude toward business prospects in general.

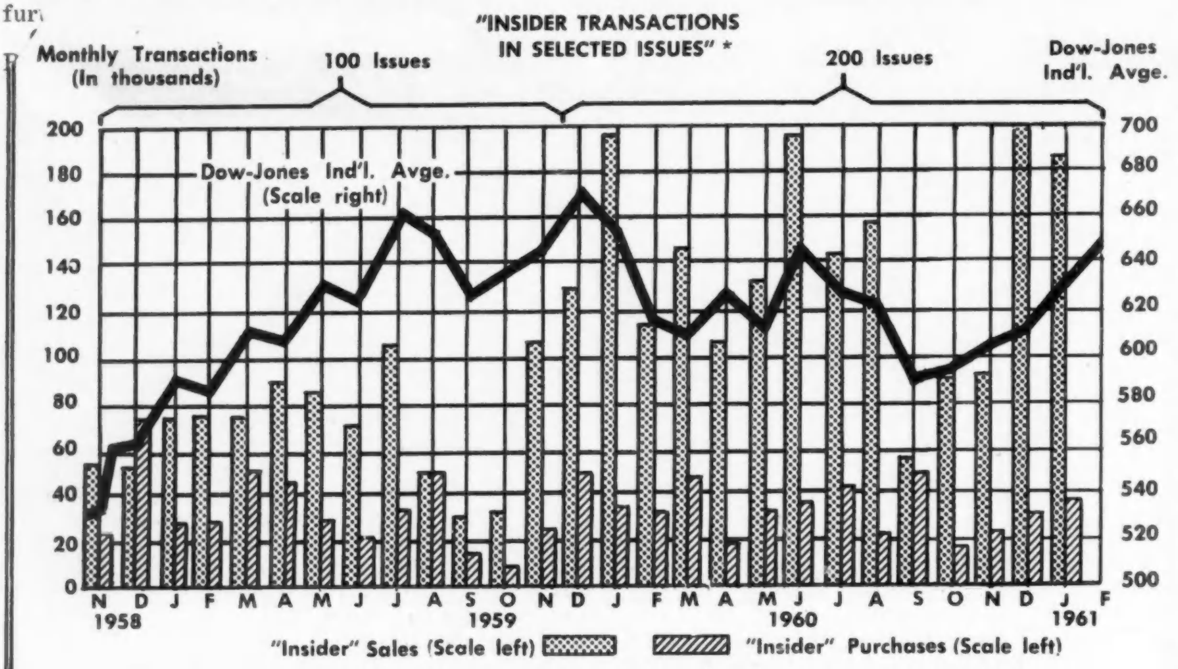
The period covered in the present article—October, 1960, through January, 1961—is of particular interest because it coincides approximately with the change of market direction and the inception of the present upward trend, beginning last fall. **Insider purchases have picked up consistently every succeeding month from their low point of 18,860 shares in October.**

This would suggest that many executives are optimistic about the outlook. But sales have mounted even more rapidly, supplying evidence that a larger number of insiders still view the higher prices as a favorable opportunity for lightening their holdings. As a matter of fact, five very large sales are omitted from the schedule as possible distortions, and yet they may have some particular significance.

Source of Insider Transactions Data

Regular readers of this Magazine are now well aware that insider transactions are the purchases or sale of stock in their own companies by officers, directors and principal holders of 10% or more of any equity issue. Under a 1934 law, such holders are required to report all transactions in listed stocks to the Securities Exchange Commission which, in turn, republishes the data in its monthly *Official Summary*.

Insiders are not allowed, under penalty of recap-



**Stock transactions by Officers, Directors and Principal Stockholders in Largest Industrial Companies. (100 companies included from November, 1958 through November, 1959 and 200 thereafter.) Certain large transactions which would have distorted comparability are omitted from these compilations.*

ture of their profits by their companies, to carry on trading operations in their stock, utilizing the advance knowledge of particular decisions or occurrences, but they are free to increase or reduce holdings as they appraise the longer-term outlook for their companies. **And, while the information can often come to the outside stockholder only tardily, perusal of the *Official Summary* shows clearly that insiders usually do anticipate protracted changes such as, for example, the aircraft industry readjustment or the general oil depression after 1957.**

Some heavy sales, however, may reflect the diversification of large holdings or the liquidation of estates, rather than business forecasts. For this reason the interpretation of insider transactions must be cautious. But in conjunction with information from other sources it can still be extremely useful.

Insiders Not Excited By Present Market Trends

The preceding article on this subject covered the September quarter of last year. The month of September by itself seemed to contradict the previous data, for until then insider purchases had been receding while sales mere tending to expand. But in September purchases suddenly doubled, while sales dropped to less than half the level theretofore prevailing. In brief, the attitude of caution on the part of insiders that had prevailed during the summer of last year was suddenly relaxed. While corporate executives probably should not be credited with any unusual degree of prescience in identifying major changes in market direction, it looks like they picked the October reversal pretty closely.

But since then the insiders have not been tumbling over themselves to jump on the bull market bandwagon. Purchases dropped off, in fact, to a new low level (on the "200 company scale") of 18,860 shares, in October.

Subsequently, as stated above, a steady recovery has taken place on the purchase side, but without yet exceeding the "normal" level which prevailed during the first half of 1960. Simultaneously, sales have expanded even more rapidly, reaching the peak level of 200,760 shares in December and dropping back only to 185,230 shares in January. The latter figure may still be lifted higher by late reporting. The implications are that insiders are not excited by the current market climb and even tend to view it as an opportunity for lightening up their larger holdings.

Major Transactions Excluded

Certain large transactions, mostly liquidations, have even been omitted from the accompanying chart, as they would cause distortions and are less likely to reflect pure investment decisions.

The sale of 23,215 shares of Ford Motors by Defense Secretary Robert McNamara, in December, obviously deserves exclusion. And the sale of 22,000 shares of Beatrice Foods by Director Stephen J. Bartush (who retains 49,000 shares) can be regarded merely as a prudent step toward diversification on the part of this former proprietor of Shedd-Bartush Foods, which Beatrice absorbed two years ago.

Steady liquidation of its large holdings of Merck by the Rosengarten Estate has been going on for many months, but October distribution of 33,800 shares was exceptionally heavy and has been ex-

cluded from the accompanying data. Director A. G. Rosengarten Jr. still controls over 100,000 shares of the drug manufacturer.

● It is curious that Robert G. Fairburn, former chairman of **Diamond National,** who resigned that position at the year-end but who continues as a director, unloaded his entire holdings in a large 350,000 share secondary in October, but it may be assumed that personal motives were largely involved.

● The same may be true of Thomas S. Nichols, Chairman, and John M. and Spencer T. Olin, directors of **Olin Mathieson,** who sold a total of 114,000 shares in January, but each of whom still retains very respectable holdings.

● The unloading of 22,100 share of **Fruehauf Trailer** by Chairman Roy Fruehauf (who retains 140,000 shares) during December was not surprising, as this is a company in which insider transactions are relatively frequent.

● More surprising (and included in the table) was the sale in December of 9,700 shares of **Singer Mfg.** by principal stockholder (not a member of management) F. Ambrose Clark. Sales of this company by any insider have been almost unknown as long as the present articles have been written. **Mr. Clark's reduction was marked as liquidation of a bequest, however, and was only a drop in the bucket compared with the 533,000 shares he still controls.**

● On the buying side, the heavy purchases in **Union Oil of California** by **Phillips Petroleum,** which has been going on for many months, have also been omitted from consideration as an ordinary insider transaction. **Phillips' accumulation of Union was finally halted in December by an injunction, which also forbids it to vote its 1,263,000 shares now held.**

Electrical Equipment, Foods

But let's look now at more normal transactions which presumably do reflect investment judgment. Only slight indications exist that the recent price-fixing problems plaguing the electrical equipment industry were anticipated in terms of stock sales by any members of management.

● To be sure, 7,730 shares of **Westinghouse** were sold by various officers in December and another 4,370 shares in January, but it should be added that these sales followed the exercise of a number of large options. One officer, Leslie E. Lynde, also bought 4,300 shares in January.

● One director of **Square D** sold 2,170 shares in January, and Director Charles Edison of **McGraw Edison** has been continuing to reduce his large holdings in that company, but these transactions were isolated. ● Substantial sales (4,650 shares) of **General Electric** did occur in January, but these had been exceeded by purchases of 6,080 shares in December. ● A director of **Cutler Hammer** also divested 8,000 shares in December.

● A clearer attitude was shown by executives of **General Mills,** who reduced their holdings by 6,255 shares in November, 4,510 in December and 3,200 in January. These reductions were on the part of a number of officers, rather than concentrated; again, however, they followed the exercise of large stock options. Certainly, there has been nothing visibly unfavorable in the company's recent record; it was one of the trend-buckers last year.

● Three officers sold 2,080 shares of **Borden** in October, but this has not been repeated, and other food stocks, such as **Corn Products** aud **General Foods,** are being firmly held by insiders. Three insiders, however, reduced their holdings of **Foremost Dairies** during December, one director selling 15,000 out of 20,000 shares. ● **Armour** was decidedly unpopular with its management, having been sold heavily and consistently for many months, but **Swift** showed neither sales nor purchases worth mentioning.

Containers, Automobiles in Mild Disfavor

Container stocks appear to have been mildly unpopular with their own management in recent months; small sales of **American Can** since September culminated in a larger liquidation, mostly on the part of one director, of 6,180 shares in January. ● In December 3,000 shares of **Continental Can** were divested by two officers, but this was partly offset by a purchase of 1,000 shares the following month. ● Relatively small but rather widely distributed sales of **Owens-Illinois** have also been noted, and fairly substantial reductions of **Container Corp.** were made in October, December and January.

● **Automobile stocks** have also been in mild disfavor with their own executives. **Ford** was sold by insiders in November, December and January, and **General Motors** in the latter two months. Both of these companies have such a long roster of officers, however, that share amounts that might look impressive for more typical corporations must be discounted; both of them, moreover, had recently distributed lavish stock bonuses.

● For the most part **Chrysler** has been on the buying side in recent months, but in December Director J. T. Trippe sold 6,800 shares, retaining only 200. Three officers of **American Motors** made rather substantial divestments during the December quarter, and 15,500 shares of **Studebaker-Packard** were also sold by three officers in December.

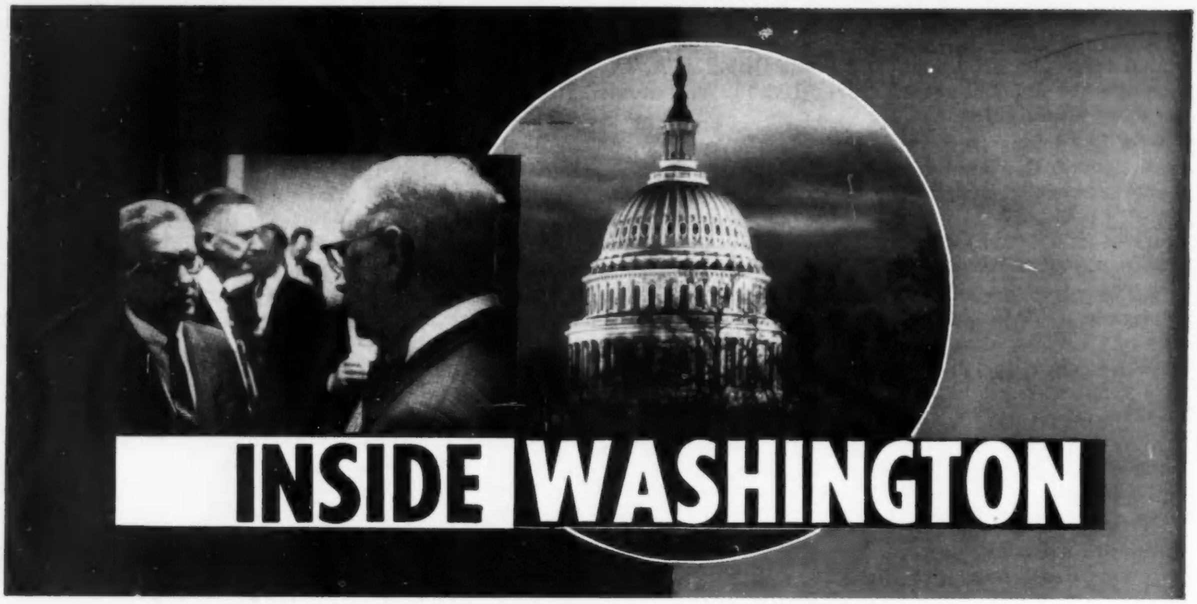
Some Machinery Stocks Sold

Certain of the machinery and allied issues also showed a marked preponderance of insider sales. **Chicago Pneumatic Tool,** for example, was sold in fairly heavy volume by President Coffey and another officer in December and January, with no offsetting purchases on the record for over a year.

● **Thompson Ramo** showed a consistent pattern of insider selling during the four-month period covered, accelerating a little with the passage of time.

● Among specialty manufacturers, **Outboard Marine** experienced concentrated sales, mostly on the part of Ralph Evinrude, in December. ● **Minneapolis-Honeywell Regulator,** despite its spectacular price action, has been consistently reduced by its executives since October, and a selling trend in **Minnesota Mining** was culminated by sales of 24,400 shares in January, the bulk of them, to be sure, in behalf of trusts controlled by Director John Ordway.

● On the other hand, **American Radiator, Avco** and **Trane** have shown moderate insider purchases in recent months. **In aviation manufacturing,** tendencies have been contradictory, with no clearly defined trends apparent. *(Please turn to page 46)*



INSIDE WASHINGTON

BY "VERITAS"

U. S.-AFRO RELATIONS are moving toward the hands of the President, away from the direction of Michigan's former 6-term governor G. Mennen (Soapy) Williams, Assistant Secretary of State for African Affairs. Although President Kennedy has openly endorsed Williams' recent conduct and pronouncements on the Dark Continent, conduct and statements which aroused the ire of some of our important European allies, notably England, fact remains the Michigander will say less and be more directly under the President's guidance and direction. Further, President Kennedy plans to encourage more visits to Washington by African chiefs of state for the "red carpet treatment" as was recently given Ghana's president Kwame Nkhruma.

WASHINGTON SEES

New Frontiers aid-to-education program will be completely killed or vastly reduced from the total requested by the President. In any event, the issue will not be settled for many weeks. Educated guess is that it will not die but will be drastically altered, downward.

Racial and religious issues confront the President and his program. The racial angle has not actively come into the picture, but its injection within a matter of days is certain. The religious problem is already before the Congress with many of the Solons pressing for financial aid in the form of low-interest loans to educational institutions sponsored by Churches.

The President has declared such Federal help to religious schools, unconstitutional under the First Amendment. There are those in Congress who dispute him, are ready to "fight it out on the floor".

It is the most controversial of all the New Frontiers programs before the Congress — faces long and bitter debate, with the southern bloc prepared to go to the length of a filibuster.

Worrying the Administration is "grass roots" Congressional mail on the subject. It now runs approximately 3-1 against aid of any sort lest the Federal government be empowered to dictate in the field of education.

SUPREME COURT "inches" toward the right, according to competent observers of the High Bench's decisions over the past several years. Pointed up are two recent actions of "The Nine Old Men" that may indicate a reversal of the Court's leftward trend. First, by a 5-4 decision, the Justices upheld the conviction of two defendants on contempt of Congress Charges brought by the House Committee on Un-American Activities. Heretofore the High Court had reversed a major portion of identical convictions. In the other instance, the Court denied hearing to appelants in a restaurant sit-in conviction under the trespass laws of the State of Florida. The incidents mentioned number only two but, the observers declare, they indicate hope for reversal of a long leftish trend.

STATE DEPARTMENT'S major headache of the moment stems, not from the Chancelleries of the Red nations, but from property owners of Washington, "right in the Department's own back-yard". It hasn't made many headlines, but both the Secretary of State and President Kennedy are gravely concerned that Washington owners of properties desirable for embassy purposes flatly refuse to rent (or sell) to the newly-emerging independent African nations. Further aggravating the situation is the almost daily refusal of restaurants and hotels in certain sections of the country to accommodate the ebony hued diplomats. The Russians have used it all to tremendous propaganda advantage in Africa. Regarding the problem as almost as serious as that of the Congo, State Dept. has set up a special section to "reason" with D. C. property owners, but privately admits it may have to ask Congressional appropriations to build embassies for lease to the Afro diplomats at "nominal" rentals.

As We Go To Press

McNamara "Riles" Two-Thirds Of Defense Establishment; Raises Congressional Eyebrows. March 8 directive of new Defense Secretary Robert S. McNamara, putting Air Force in "the driver's seat" with almost complete dominance of military space development—including missiles and satellites—has possibly brought the confused programs under a single agency, but it has stirred up a hornets' nest that may have to be settled by Congress, the President or both. McNamara's directive made exceptions, but they were minor, and the other two services, Army and Navy, are boiling mad—see it as a move which will completely throttle well-advanced developments of their own.

In the background are the two Armed Forces Committees of Capital Hill, one of them (House) partial to Navy, the Senate group friendly to Army. Both services have tremendous influence with the respective Committees, neither of which has yet commented on the new "order of things". It is common knowledge here that our missile-space programs were scattered among too many services and agencies, that consolidation in a single point of responsibility was necessary, but inter-service rivalries make it almost impossible for them to "stomach" the McNamara move. It very possibly will wind up with a single, overall civilian agency doing the whole job. And this could result in both speed and economy.

Merchant Marine Industry Is Cheered Slightly. Depressed since the spring of 1957, ocean shipping men noted improvements beginning last autumn and cautiously forecast "gradual" betterment for the remainder of the calendar year. Inactive U. S. privately-owned tonnage in the four-year period has dropped nearly 50%, but rates on bulk cargo are now beginning to edge up. Other rosy forecasts include a general overall increase in available cargoes and the expectation that total ocean-borne world trade will pass the $120 billion mark this year. Dogging the U. S. industry are the near-exhorbitant pay scales exacted by the American maritime unions. Despite these handicaps, the American Merchant Marine forces are hopeful of the most profitable year since World War II.

Stevenson Target Of Moscow Wrath. The Moscow radio "machine" will step up its adverse criticism of Adlai E. Stevenson, our ambassador to the United Nations. Already accused of "hypocrisy, a basic ingredient of U. S. bourgeois diplomacy", the Reds plan to drag up former Stevenson criticisms of the Eisenhower Administration with the assertion that the Ambassador has done an about face in order to "protect" his UN job. The Red criticism of Stevenson stems back to a March 2 speech in which he warned the U. S. S. R. to "think twice'' before intervening in Africa. The Administration is well satisfied with Stevenson's UN performance to date and has given him "carte blanc" to say what he chooses. In fact, President Kennedy is leaving the whole UN "job" up to Stevenson, will not interfere with him in any way at all unless he gets too far out on a limb.

Government Air Fleets (Civilian) To Be Enlarged. Coast Guard (Under Treasury Department) and now operating 134 aircraft for air search and rescue services and air navigation facilities over ocean areas, plans an immediate "beef-up" of $12.4 million worth of helicopters and turbine-powered aircraft—more increases to follow as the fiscal year wears along. Other civilian agencies that will increase their air fleets include the Federal Aviation Agency (FAA), the Weather Bureau, (a wing of the Department of Commerce), and the Immigration and Naturalization Service. Budgeted for the increased aerial equipment is $20.9 million, but all of the agencies are prepared to ask Congress for total of $10 million more, each.

Agriculture Secretary To Boost Government Costs? An affirmative answer is immedately available. On March 10, Mr. Freeman announced increases in support prices for

dairy products, rice and peanuts. He declared the action would increase farm income "from $1 billion to $2 billion this year." Omitted by the erudite Mr. Freeman was fact that the increased farm income would come out of taxpayer pockets at the rate of about $1.28 for every dollar of support price. In other words, a $1 billion increase in farm income will cost us $1,280,000,000 with little prospect that as much as 10% will be recaptured through sales of the surplus sure to be built up. It effectively points up that no one, not even the great "New Frontiersmen", have a sensible answer to the farm problem, better left to the age-old law of supply and demand, and it can be added with some degree of certainty, that many farmers would prefer that to the myriad regulations pouring out of Washington.

Interior Sweats Over Oil Import Quotas. Secretary Udall, who recently increased residual oil import quotas, slightly reshuffling importers' allotments—to the discomfort of the coal industry—prepares to tackle crude and semi-finished imports. He is under pressure to reduce them as political "payola" to Texas for its return to the Democratic fold. Texas producers, now down to nine days production a month, seek cutback of imports that would permit operation at least three more days. Vice President Johnson and his fellow Texan, House Speaker Sam Rayburn, are pressing for the reductions.

Udall's problem is finding someone, in or out of government, having a thorough grasp of the petroleum industry's world-wide output, need to conserve domestic crude sources and impact of imports upon U. S. producers. Heretofore, the import quota system was laid down by Capt. Matthew V. Carson, USN, on loan to Interior, but now no longer available. Generally, Carson did a workmanlike job. How can he be replaced? The answer is not immediately at hand. Udall, who admittedly does not know the "oil picture", is certain to turn to the oil industry itself —all importing companies—to name a knowledgeable man to take over where Carson left off. He, Udall, will not necessarily yield to political pressure, preferring to accept the advice of the expert finally chosen.

Internal Revenue Will Get Tougher, And Soon! Hampered by inadequate personnel for auditing and collection purposes, Internal Revenue Service (IRS) will nevertheless redouble its efforts to collect delinquent tax accounts at every level, from the small individual to the giant corporation. The word has gone out to accept fewer excuses, alibis or what have you, and "crack down" with garnishments, attachments, etc. Meantime, it is a certainty that President Kennedy will ask the Congress to beef up the IRS appropriation enough to permit a field service personnel increase of around 3,000.

Hoover Will "Nix" Super-Duper Crime Group. Legislative proposals and those of the new Attorney General, to create a National Crime Advisory Commission to bring together and co-ordinate investigative activities and agencies of the Federal government and the enforcement agencies of the State and local political subdivisions are not attractive to Federal Bureau of Investigation Director J. Edgar Hoover, the Nation's top authority on criminal matters. Although the idea has top Administration and some Senatorial support, Mr. Hoover thinks ill of it; believes it may become a head-line hunting group that would hamper the efforts of his G-Men through too much publicity in an area where publicity is to be shunned lest the criminal element knows "what cooks". If the proposal comes to a Capital Hill show-down, look for Hoover to effectively oppose the idea.

Housing As "Crash" Program? Some of Washington's top economists incline to the belief that a rapid upswing in home building and multiple family units will do more to swing the national economic curve upward than any "crash" program—extended unemployment compensation, speed-up of highway construction, aid to education, etc.—now pending. The President in in apparent agreement as evidenced by his move to lower interest rates on Federally guaranteed mortgages. Meanwhile, the Federal Home Loan Bank Board is moving rapidly to stimulate home-builder credit through Savings & Loan Associations, has already raised limit on the amount member association may borrow from FHLB for mortgage expansion or seasonal needs.

Aid For Those Who Help Themselves. One of the most hopeful developments on the national and international scenes in recent weeks was set forth on March 13th, when President Kennedy outlined a ten-point program before an assembled group of Latin American diplomats and members of Congress. Latin America, where hemispheric solidarity is highly desirable, is being approached with a considerable show of realism in the new program that makes self-help, internal initiative and austerity in high places a condition for loans — a prerequisite that was outrageously neglected in the past.

Acording to these reports, long-term aid would be programmed only for those countries which institute agrarian reforms (presumably of the democratic and not collectivist variety), overhaul their tax systems to correct inequities (a reform we could well use ourselves), and budget a greater portion of their national revenue for such social overhead items as housing and health.

The concrete financial proposal that Mr. Kennedy urged Congress to finally appropriate was actually only the $500,000,000 promised to the Latins last year at the Bogota Conference.

But President Kennedy has made it plain that, whatever the political ring of the bell he has sounded in Latin ears, we are not going to follow old patterns, which have seen too many efforts petering out amidst waste and inflation without a great deal to show in economic progress. At the same time, the countries south of the border are aware that U.S. experience with other countries has accomplished a great deal when it has been aimed at genuine economic improvement, and not at shoring up a doubtful military ally or a "safe" regime.

Of the ten points enunciated, the most potentially ambitious was point number one, "A ten-year plan to raise the living standards of all Americans, provide basic education, end hunger, and place each nation on a basis of self-sustaining growth", but this was not followed by any explanation of just what the plan would consist.

Most of the other points were along the lines already suggested by the Eisenhower administration. Nevertheless, by itself, the interest of the Kennedy administration in Latin America will tend to improve our relations with that area, and the fact that the communists know this was well demonstrated by the vitriolic attack launched by Fidel Castro after the speech.

New Leadership In Our Foreign Policy. Equally important, the administration reported to be trying to get away from the self-defeating policy of coasting from crisis to crisis, dealing with each as it arises, with the disadvantage of reacting only when the situation has seriously deteriorated. It has been said that the only foreign policy which the United States has left is to open its national pocketbook every time an international crisis arises, and there has certainly been a considerable amount of justification for this feeling.

There will naturally be certain occasions when the government will not be able to foresee sudden developments in crtain parts of the world, despite all intelligence activities. Nevertheless, it is a rare crisis that does not telegraph its coming some time in advance, and complacently hoping that it will not actually arrive is a disastrous policy.

We should be constantly and actively searching out areas of Soviet and Chinese infiltration to meet the frequent demands that amount to international blackmail, when a country says to us, in effect, "Give us aid or we will turn to the Soviet bloc. We will not make the reforms you want, nor will we agree to use the money in any really effective way; however you must give it to us or risk defeat in the Cold War". With modifications, this has happened a number of times in the years since the Second World War, where it has been difficult to resist the large and important countries asking for aid, where the proper answer should be "no".

The Peace Corps Plan. The Peace Corps will, it appears, be made up of young people from the ages of eighteen to twenty-two or three. If they are able to provide medical and dental care — ways and means for insuring adequate food supplies and healthful methods for the preparation of it — better and more sanitary living quarters — to cite a few basics, then much can be accomplished. But in every case it will call for the most careful selection *(Please turn to page 52)*

A New Feature

Number Two . . .

A First-Hand Report on . . .

TRENDS IN 1961 DEFENSE EXPENDITURES

—And who will get the orders

By JEROME ELSWIT

◆ **In its first quick reappraisal of the nation's defense program, the Kennedy Administration is placing its emphasis on accelerating high-priority weapons systems which are already either in production or in advanced development.** This is being done to meet today's threat. But to meet the threats that may face us tomorrow, research and development goes on for scores of "far out" concepts. These are the drawings and small scale models that will be the weapons systems of five and ten years from now. Millions of dollars will be spent on their development this year and next, culminating eventually in many cases, in production contracts for many more millions.

• **Responsibility for virtually all development of military space systems has now been given exclusively to the Air Force. Consequently, contractors** now engaged in R. & D. for Air Force space projects are in a preferred position.

It is significant that while no *production* money is contemplated for any military space system before 1963, almost a billion dollars will be allocated by next year for research, development, test and evaluation. A large chunk of this—almost $400 million—will go to the AGENA B satellite platform and two of its major passengers, the SAMOS surveillance satellite and the MIDAS infra-red missile warning satellite. Lockheed Aircraft Corp. is prime contractor for all three.

• Another important space system under active development is the SAINT satellite inspection vehicle, for which **Radio Corp. of America** will receive substantial funding. SAINT is said officially to be for "inspection" only of unidentified satellites; but there have been increasing demands by military leaders and Congressmen for the development of actual satellite-intercept and destruct weapons, and SAINT could well fill this role too. **From a paper study a year ago the project has grown to the point where an estimated $20 million may be earmarked for it in fiscal 1962.**

• Another expanding space system development

is the DYNASOAR manned space glider, which will pave the way for manned military space vehicles. Naturally, the companies now participating on Dynasoar will be in preferred positions when that day comes. **Boeing is the vehicle contractor, Martin will provide the early propulsion system in the form of an advanced Titan ICBM. Radio Corp. of American and Minneapolis-Honeywell are in on the communications and guidance systems, respectively. About $50 million is believed to be allocated for Dynasoar in fiscal 1962.**

• **Large solid propellant rocket engines** are about to receive much more attention as potential space vehicle boosters, both from the Air Force and the civilian space agency. Heretofore, both have concentrated on liquid propellants for this purpose. **Aerojet-General** is in the forefront of this development with the Air Force and **United Aircraft** with NASA, while **Thiokol** has ambitious plans in this field.

Further down the road are ***nuclear-powered rocket engines.*** The Air Force is already sponsoring studies of the application of such engines to possible future systems — bombardment satellites, new missiles, lunar bases. **Thiokol, Westinghouse, General Dynamics** and **Hughes Aircraft** are among the companies engaged in these studies. **Martin, Douglas, General Electric.** and **Northrop** are working on techniques for resupplying large satellites in orbit.

• **It is interesting to note that the unfilled-order backlog of the "aerospace" industry in 1960 was almost identical dollar-wise with the 1951 backlog—$12.5 billion.** But whereas military aircraft orders accounted for 92 percent of the 1951 backlog, this category was down to about 30 percent in 1960 and orders for missiles and space vehicles comprised more than 50 percent. **This trend will be accentuated with the production phaseout of the F-106 fighter during 1960 and the B-52 and B-58 bombers by 1962. On the other hand, there are some counter-trends.**

The manned aircraft backlog will be considerably fattened for the next four years by Lockheed's new billion dollar program for the development of the CX-1 long range jet transport. At least 50% of the project will be sub-contracted to other producers and suppliers in the industry.

The Air Force's Largest Contractors For Research-Development (First Half, Fiscal 1961)

Company	Amount of Air Force R. & D. Contracts	Project
Aerojet	$63,000,000	Atlas; Titan; Minuteman; other R. & D.
American Bosch	20,000,000	Atlas
Avco	24,600,000	Atlas; Titan; Hound Dog
Boeing	107,372,000	B-52; minuteman; other R. & D.
Cutler-Hammer	11,100,000	Electronic countermeasure systems
Douglas	79,409,000	Thor; Skybolt; other R. & D.
General Dynamics (Convair)	211,582,000	Atlas; other R. & D.; services on F-106
General Electric	95,720,000	Atlas; Titan; communications systems; nuclear aircraft; other R. & D.
General Motors (AC Spark Plug)	37,512,000	Titan; Thor
Hercules Powder Co.	14,100,000	Minuteman
Hughes Aircraft	13,014,500	Unspecified R. & D.
IBM	18,900,000	Fire control, navigation systems; other R. & D.
I T & T	25,400,000	R. & D.
Lockheed	129,200,000	Midas; Samos; other R.&D.
Martin	193,200,000	Titan; Dynasoar; Bullpup; other R. & D.
North American Av.	174,300,000	Hound Dog; Minuteman; B-70; Atlas; Thor; other.
Space Tech. Lab.	25,000,000	Minuteman plus R. & D.
Thiokol	52,400,000	Minuteman

Note: Figures are approximate. Under AF budget procedures, much actual procurement of ballistic missiles is carried under the R. & D. heading. Most projects listed will continue at high level in last six months of fiscal 1961 except Thor and nuclear aircraft.

Pratt & Whitney will probably supply the Four Turbofan Engines. About $130 million will be available for design work this year and next, with annual expenditures of up to $300 million starting in 1963.

• Development will continue on the expensive B-70 bomber **(North American)**—not at the rate its proponents would like, but a higher level than in 1960. An Air Force project for a new STOL fighter should get to the initial contract stage in fiscal 1962. The advantage of such a plane would be its ability to use makeshift or bomb-damaged airstrips. **Boeing** and **Bell Aerosystems** (subsidiary of Textron) are among the firms with well-advanced designs of this type. Air Force requirements are being coordinated with the Navy, which is intensively interested in a fighter that will need less deck space on a carrier. Thus a lucrative two-Service market might be available to the successful contractor.

• **The aircraft carrier's limited-war role, coupled with the expected contraction of overseas air bases, appears to call for some augmentation of the Navy's combat plane procurement, which has not kept up even with the normal attrition rate caused by wear-out and accidents. McDonnell, Grumman, and North American** would be beneficiaries of such a move.

• **All three Services are cooperating in the development of a VTOL transport plane.** Contracts for initial development, possibly of several types, should be let to several firms in the next three months. **Republic Aviation** recently unveiled a design for a 6-jet engine transport of this type. Among other competitors are a three-company team made up of **Chance Vought, Ryan,** and **Hiller.**

Deliveries of Republic's F-105 fighter-bomber will continue throughout fiscal 1962 to the tune of about $250 million.

Mounting demands for the present-day VTOL, the helicopter, continue by the Army and Navy. Boeing's Vertol division is scheduled to receive a substantial Navy contract for Marine transport helicopters similar to those now used commercially by New York Airways. The Army will soon award two contracts for design of a light observation helicopter.

►Construction of *(Please turn to page 43)*

Electronics . . .

Section One

SECOND STAGE of GROWTH for ELECTRONICS INDUSTRY?

I — Makers of Controls and Devices

By JOHN R. McCRACKEN

- **Where makers of devices and controls stand today**
- **Cost of research — government orders on the one hand — industrial on the other**
- **Companies pushing ahead — and the reasons therefor . . . leaders that are currently stymied — where earnings outlook depends on increasing profit margin**
- **Companies in an investment position — where market is highly speculative**

THE excitement of electronics in the space-age, and its appeal to the imagination, continues to cloak electronics stocks with an irresistible glamour, and once again they are soaring in the market, despite flimsy profits. In part, of course, it is the promise of the future that has investors bedazzled, but there is also the reassurances contained in the industry's recent favorable performance at this time of general uncertainty.

A look around the country indicates that despite an occasional soft spot, the electronics industry is enjoying good health. In general, except for consumer goods, such as television and radio sets, business shows strength. This is true across the board, from prime defense contractors, to component makers, and specialists in industrial electronics. Moreover, despite a generally unsatisfactory profits year, a fair proportion of the companies reported earnings increases in 1960 and many look forward to gains in the current year.

Investors, particularly institutional investors who have been actively buying electronics shares, apparently view the recession period performance of the industry as proof that it is now out of the infant industry category, and has real money-making potentials, even if little of it has yet been paid out to

Leading Companies Making Industrial Devices and Controls

	Earnings Per Share				Dividends Per Share					
	1958	1959	1960	1960 Cash Earnings Per Share	1958	1959	Current Annual Div. †	Recent Price	Div. Yield	Price Range 1960-61
American Bosch Arma Corp.	$2.50	$1.83	$ .51	$ *	$1.20	$1.20	$ —[6]	19	—%	30 - 13¼
Ampex Corp.	.39	.53	.15[4]	*	—	—	—	22	—	42¼- 19½
Amphenol-Borg Electronics	1.96	2.50	2.51	*	—	1.40	1.40	56	2.5	58¼- 33⅜
Avco Corp.	1.01	.93	.97	1.63	.40	.40	.50	18	2.2	18⅞- 11¾
Beckman Instruments	d .70[1]	1.30[1]	2.24[1]	3.31[1]	—	—	—	125	—	128 - 62½
Bendix Corp.	4.18[2]	5.37[2]	4.88[2]	7.21[2]	2.40	2.40	2.40	65	3.6	74½- 56¼
Clevite Corp.	1.60	3.36	3.50[4]	*	1.15	1.15	1.20	55	2.1	72½- 42
Collins Radio Co.	.56[3]	1.95[3]	3.04[3]	4.45[3]	—	[7]	[7]	44	—	76 - 41¾
Daystrom, Inc.	.62	2.48	2.25[4]	*	1.20	1.20	1.20	30	4.0	49⅝- 27½
Fairchild Camera & Instrument	.57	2.00	2.50[4]	*	.25	.50	.50	145	.3	201¾-110¼
General Electric	2.77	3.19	2.26	*	2.00	2.00	2.00	68	2.9	99⅞- 61⅛
General Instrument	.98	1.23	1.40[4]	*	.15	.15	.15	44	.3	50⅝- 22½
General Precision Equipment	d .74	2.63	3.46	*	.85	.25	1.20	67	1.7	72⅝- 43½
International Tel. & Tel.	1.81	1.87	2.00[4]	*	.90	.97	1.00	55	1.8	59 - 32
Litton Industries	1.07[3]	1.62[3]	1.76[3]	4.57[3]	—	[8]	[8]	121	—	124¾- 57⅝
Mallory (P.R.) & Co.	1.89	2.80	2.84	*	1.40	1.40[5]	1.40[5]	41	3.4	50¼- 33
Minneapolis-Honeywell Reg.	3.23	4.20	3.74	*	1.75	1.85	2.00	159	1.2	178¾-123⅝
Raytheon Mfg.	3.08	3.89	3.01	*	[9]	[9]	[9]	36	—	53⅝- 30¼
Robertshaw-Fulton Controls	2.40	3.35	1.65	*	1.50	1.50	1.00	35	2.8	55 - 33¼
Square "D Co.	1.12	1.92	2.13	*	1.00	1.00[5]	1.25	34	3.6	37⅞- 25½
Texas Instruments, Inc.	1.84	3.59	3.91	6.68	—	—	—	177	—	256¼-148¼
Thompson Ramo Wooldridge	2.86	3.02	3.13	*	1.40	1.40	1.40	78	1.7	82⅜- 46⅞
Transitron Electronic	.25[1]	.86[1]	1.08[1]	1.22[1]	—	—	—	34	—	60 - 31½
Varian Associates	.48[2]	.82[2]	.85[2]	1.44[2]	—	—	—	59	—	67⅛- 38⅛
Westinghouse Air Brake	2.10	2.71	1.81	2.90	1.20	1.20	1.20	25	4.8	32⅝- 21⅛
Westinghouse Electric	2.13	2.43	2.22	3.63	1.00	1.05	1.20	46	2.5	65 - 40⅝

†—Based on latest dividend rate.
*—Not available at time of going to press.
d—Deficit.
1—Years ended June 30.
2—Years ended September 30.
3—Years ended July 31.
4—Estimated.
5—Plus stock.
6—No action taken 11/21/60.
7—4% in stock.
8—2½% in stock.
9—Paid 5% in 1958-59-60; 3% 1961.

American Bosch Arma: Electronics operations are mostly military. Earnings declined in 1960 because of poor auto parts business. Little near-term recovery expected. **C4**

Ampex Corp.: Heavy competition for recording and other tape devices is slowing earnings growth considerably. Poor showing in 1960. **B4**

Amphenol-Borg: Leading maker of connectors and electronic components. Earnings should continue fairly stable. **B2**

Avco Corp.: Heavy defense contractor. Missile work adding to volume but subject to risks of government business. **C1**

Beckman Instruments: Good quality company with strong position in medical electronics and instrumentation. **B1**

Bendix Corp.: Auto and aircraft parts business still a drag on earnings growth. Recent years show flat earnings trend. **A2**

Clevite Corp.: Major producer of bearings, has made successful inroads in electronics field. **B1**

Collins Radio: Major communications equipment producer. Heavy research will tend to hold down near-term earnings. **C2**

Daystrom: Growing factor in electronics, but costs of expansion program have held back earnings and may continue to do so for some time. **B4**

Fairchild Camera & Instrument: Profitable operation for new subsidiary may lead to further gain in earnings. **B1**

General Electric: Price-fixing scandals and possible recoveries from damage suits cloud near-term outlook, but basic position strong. **A2**

General Instrument: Rapid progress in transistor field, and good prospects for other components. **B1**

General Precision Equipment: Since reorganization, new products and better management have improved prospects. **C1**

International Tel. & Tel.: New management is revitalizing the company. Earnings growth will be slow over near-term, but should be more rapid later. **A1**

Litton Industries: Spurred by mergers, company has enjoyed rapid rate of earnings growth. Outlook continues favorable. **B1**

Mallory, P. R.: Increasing demand for switches and capacitors may lead to gradual earnings betterment. **B2**

Minneapolis-Honeywell: High-quality producer of controls and regulators. Earnings decline in 1960 should prove to be temporary. **A2**

Raytheon Mfg.: Cost control is big problem for this major defense contractor. Some progress expected later this year. **C4**

Robertshaw-Fulton Controls: Heavy dependence on controls for appliances clouds company's near-term outlook. **B4**

Square D: Earnings recovery in 1960 may not continue over coming months due to lower capital spending. **B4**

Texas Instruments: Earnings growth somewhat slower in 1960. Increased competition at home and abroad indicated. **B1**

Thompson-Ramo: Recent establishment of separate space program lends added appeal to this high quality stock. Slightly higher earnings expected for 1961. **A2**

Transitron Electronics: Earnings rose in fiscal 1960, but internal difficulties and heavy competition have slowed recent progress. **B2**

Varian Assoc.: Manufacturer of specialty electronics products, growth less rapid last year. Prospects not without promise. **B2**

Westinghouse Air Brake: Poor results from rail equipment, and unexpected drop in electronics business hurt 1960. **B4**

Westinghouse Electric: Along with GE, near-term outlook is clouded by price-fixing case. Strong longer term position. **A2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 4—Earnings up from lows. 4—Lower earnings trend.

shareholders in the form of dividends.

Whether this conclusion is warranted or not, there can be no doubt that electronics is now among our dynamic industries. Factory sales in 1960 topped $10 billion, and the figure will be higher again this year. Military uses still absorb over 50% of all electronics production, but in view of the administration's intentions to push our space program even harder in the future, this fact alone can explain some of the more bullish feeling about the electronics companies, in which speculators are active.

By way of illustrating the extent of military demand, electronics absorbed about 30% of all military procurement spending in 1960. This marks an enormous increase, compared with a few years ago, when it was the aircrafts that accounted for the major portion of the military budget. **In fact, since 1957, although the overall military budget has increased about 8%, the spending for electronics equipment, components and research has climbed 35%. By 1965, it is expected that electronics will account for well over 60% of all defense spending—a figure that pushes military demand alone up to the $9 or $10 billion mark, even if there is no overall increase in defense outlays.**

The reason of course is that most missiles, and

all space vehicles, are little more than huge flying containers of hundreds of thousands of electronic components ranging in size from big computers to semiconductors the size of the head of a pin.

Industrial Uses Expanding

Military demand, as big as it is, however, is not the sole growth area for electronics. Industrial demand has lagged in the past, but in 1960, despite lower capital expenditures by industry generally, total sales of electronic equipment to private users climbed 10% to about $1.7 billion, and the surface of this market has been barely scratched.

The Kennedy Administration has emphasized that it intends to stimulate investment in new plants and equipment. **This may appear paradoxical in view of the over-capacity besetting so many industries, but the fact remains that much of our present plant facilities are hopelessly obsolete, and therefore high-cost operations. Part of the steel industry's reluctance to state its operating rate as a percentage of capacity stems from this situation. The industry reasons—and with some justification—that capacity figures include many plants that are so obsolete that no producer would use them except in an extreme emergency.**

This need for more up-to-date plants to meet the competition from the highly modernized industrialization developed abroad, provides the electronics industry with its biggest growth potential for the next several years. Over 50% of our plant capacity is more than 15 years old—in other words, dates back to before the electronic revolution. In addition much of the capacity built within the last 15 years failed to make full use of automation and other electronic devices because of managerial unfamiliarity with the new technology. This is now changing.

The heavy swing to equipment spending instead of plant expansion in recent years indicates that companies are building up their stocks of electronic labor-savings devices. As newer plants are built they will be designed around electronic processes, which will provide an expanding market for the electronics industry.

It is belief in the stability of military demand, and the high rate of growth looked for in the industrial sector that help explain the popularity of the electronics stocks. **Yet in the final analysis it is the outlook for components—the big and little bits and pieces of electronics gadgetry—that provides the greatest speculative fervor.**

Those Booming Components

The reasons are not hard to find. For one thing, every new development calls for a larger supply of components. And past history indicates that when it gets started demand grows rapidly. As recently as 1954, semiconductors, for example, were barely being produced, but in 1960 total factory sales topped $500 million. The tube manufacturers suffered from this competition, but are now staging a healthy comeback by the development of microwave technology—a technique that uses tubes rather than semiconductors. How big the microwave market will become is still hard to say. For 1961, sales of various microwave components such as klystron and magentron tubes should reach $135-$140 million. However, a recent ruling by the F.C.C. opens up microwave channels to private companies, allowing them to build their own microwave systems. This could create a new market of sizeable proportions.

Comprehensive Statistics

Figures are in millions of dollars, except where otherwise stated.	Avco Corp.	Bendix Corp.
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 34.3	$ 1.0
Preferred Stock (Stated Value)	—	—
No. of Common Shares Outstanding (000)	10,316	5,371
Capitalization	$ 65.3	$ 27.9
Total Surplus	$ 80.4	$218.6
INCOME ACCOUNT: Fiscal Year Ended	11/30/60	9/30/60
Net Sales	$322.7	$792.2
Deprec., Depletion, Amort., etc.	$ 6.8	$ 12.5
Income Taxes	$ 9.2	$ 27.8
Interest Charges, etc.	$ 1.8	$ 2.7
Balance for Common	$ 10.0	$ 26.1
Operating Margin	6.3%	6.8%
Net Profit Margin	3.1%	3.3%
Percent Earned on Invested Capital	9.0%	10.6%
Earned Per Common Share	$ .97	$ 4.88
Cash Earnings Per Common Share	$ 1.63	$ 7.21
BALANCE SHEET: Fiscal Year Ended	11/30/60	9/30/60
Cash and Marketable Securities	$ 13.4	$ 22.4
Inventories, Net	$ 46.6	$143.0
Receivables, Net	$ 68.9	$136.2
Current Assets	$129.0	$301.7
Current Liabilities	$ 30.6	$156.5
Working Capital	$ 98.4	$145.2
Current Ratio (C. A. to C. L.)	4.2	1.9
Fixed Assets, Net	$ 41.8	$ 85.7
Total Assets	$176.4	$407.1
Cash Assets Per Common Share	$ 1.33	$ 4.18
Inventories as Percent of Sales	14.4%	18.0%
Inventories as % of Current Assets	36.1%	47.4%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

Busy Industry

This brief rundown of new developments indicates the kind of advances that feed the speculation in electronic stocks. New things are always brewing—new markets are opening up—and the future seems unlimited.

In addition, electronics, especially for the component makers produces a high return on invested capital, making it easy and cheap for companies to swing into new products. Almost without exception the component makers earn over 12 or 13% on their net worth, while the major companies, such as General Electric obtain a return of close to 20%.

Despite the humming in the industry, however, overall profitability has been low. Heavy research and development expenditures sap off a big piece of each sales dollar, and in addition profit margins on military contracts are extremely low. It is for this reason that the companies are anxious to build up industrial electronics, for it is from this area that the large profits will have to be obtained if the current prices of the stocks are ever to be justified.

Companies and Their Outlook

A good many companies in the industries scored profits gains in 1960, although in most cases the increases were not as good as expected.

Texas Instruments, which has shown an exceptional growth rate up to now, managed to raise its earnings to $3.91 a share from $3.59 in 1959, but the figures represented an enormous slowdown in the

Comparing the Position of Leading Electronic Companies *

dustrial Devices & Controls						Busines Machines			Radio and Television		
General Electric	International Tel. & Tel.	Texas Instru-ments	Westing-house Air Brake	Westing-house Electric	Burroughs Corp.	International Business Machines	National Cash Register	Pitney-Bowes	Columbia Broadcasting System	Philco	Radio Corp. of America
$ 245.3	$148.5	$ 10.9	$ 35.5	$ 321.0	$ 81.1	$ 425.0	$ 79.5	$ 2.9	$ 46.3	$ 44.3	$ 152.0
—	—	$ 3.2	—	$ 41.9	—	—	—	.8	—	$ 10.0	$ 14.5
88,860	15,681	3,925	4,208	34,813	6,647	18,310	7,956	4,351	8,641	4,090	16,537
$ 789.6	$305.3	$ 18.1	$ 78.9	$ 580.5	$114.3	$1,076.0	$119.3	$ 12.4	$ 67.9	$ 66.6	$ 200.0
$1,069.1	$259.0	$ 65.3	$ 73.0	$ 704.5	$ 92.4	$ 321.7	$	$ 26.4	$115.4	$ 88.0	$ 385.0
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$4,197.5	$811.4[4]	$232.7	$186.3	$1,955.7	$387.4	$1,436.0	$457.8	$ 67.5	$464.6	$400.5	$1,486.2
$ 116.0	$ 25.1	$ 10.7	$ 4.6	$ 47.4	$ 14.0	$ 218.0[1]	N.A.	$ 3.4	$ 9.5[2]	$ 6.5	$ 27.2[2]
$ 192.7	N.A.[5]	$ 13.9	$ 7.5	$ 65.9	$ 8.3	$ 177.7	$ 27.4	$ 6.2	$ 28.1	$ .7	$ 31.8
$ 9.6	$ 13.1	$ .6	$ 2.4	$ 11.0	$ 5.8	$ 15.1	N.A.	$ .1	$ 1.7	$ 2.5	$ 6.5
$ 200.0	$ 30.6	$ 15.3	$ 7.6	$ 77.4	$ 9.2	$ 168.1	$ 20.0	$ 5.7	$ 23.2	$ 1.9	$ 31.9
8.3%	—	12.4%	6.8%	6.7%	4.0%	22.8%	N.A.	23.7%	10.5%$	1.2%	4.3%
4.7%	3.8%	6.6%	4.0%	4.0%	2.3%	11.7%	4.3%	8.5%	5.0%	.5%	2.3%
13.2%	7.4%	21.3%	6.5%	8.2%	7.3%	17.2%	N.A.	16.1%	16.9%	2.0%	8.1%
$ 2.26	$ 1.96	$ 3.91	$ 1.81	$ 2.22	$ 1.39	$ 9.18	$ 2.52	$ 1.32	$ 2.77	$ .47	$ 1.93
$ 3.55	—	$ 6.68	$ 2.90	$ 3.63	$ 3.50	$ 21.09[1]	N.A.	$ 2.10	$ 3.82	$ 2.15	$ 3.77[2]
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 414.3	$ 56.0	$ 21.6	$ 9.2	$293.0	$ 21.3	$ 320.5	$ 34.9	$ 3.8	$ 18.4	$ 18.6	$ 65.9
$ 655.1	$252.6[3]	$ 23.8	$ 59.4	$ 398.4	$115.7	$ 37.3	$ 88.5	$ 11.1	$ 24.5	$ 77.2	$174.6
$ 565.8	$225.7	$ 30.9	$ 63.9	$ 342.9	$ 86.1	$ 214.2	N.A.	$ 11.6	$ 83.8	$ 70.4	$ 241.1
$1,478.5	$542.9	$ 72.3	$133.7	$ 993.6	$239.0	$ 572.1	$208.1	$ 27.4	$174.0	$168.1	$ 513.0
$ 705.5	$273.5	$ 35.2	$ 31.5	$ 221.3	$125.4	$ 137.5	$ 82.0	$ 12.2	$ 79.5	$ 74.3	$ 217.8
$ 773.0	$269.4	$ 37.1	$102.2	$ 772.3	$113.6	$ 434.6	$126.1	$ 15.2	$ 94.5	$ 93.8	$ 295.2
2.0	2.0	2.0	4.2	4.4	1.9	4.1	2.5	2.2	2.2	2.3	2.3
$ 693.7	$288.5	$ 46.0	$ 41.1	$ 355.3	$ 86.9	$ 849.7	$ 95.7	$ 32.3	$ 75.7	$ 51.6	$ 239.5
$2,551.2	$923.9	$118.6	$185.4	$1,521.1	$334.2	$1,535.3	$340.2	$ 60.1	$265.2	$231.9	$ 815.5
$ 4.66	$ 3.60	$ 5.51	$ 2.19	$ 8.41	$ 3.21	$ 17.50	$ 4.39	$ .87	$ 2.13	$ 4.54	$ 3.99
15.6%	—	10.2%	31.8%	20.3*	29.8%	2.5%	19.3%	16.5%	5.2%	19.2%	11.7%
44.3%	—	32.9%	44.4%	40.0%	48.4%	6.5%	42.5%	40.7%	14.1%	45.9%	34.0%

N.A.—Not available.
1—Includes deprec. rental mach., deprec. & amortiz. plant and equip.
2—Includes amortiz. of some intangibles.
3—Manufacturing subsidiaries.
4—Combined mfg. & Telephone subs.
5—U.S. & Foreign taxes $50.3 million.

rate of growth. Earnings had doubled in the previous year and had increased nine-fold since 1954. The 1960 performance, therefore, was a real disappointment.

Texas Instruments, for the first time, found itself in a competitive economy. Price weaknesses in semiconductors cut profit margins; industrial demand for its products slowed in the wake of the recession; and the company's geophysical services for the oil industry tapered off with the slowdown in drilling activity.

For 1961 the outlook will depend on the extent of the recession and the speed with which new military programs can be started. **Texas Instruments still has enormous growth potential, but it has become big enough now to become sensitive to economic conditions. Thus a more cautious attitude is now warranted than in the past.**

General Electric and **Westinghouse** present special cases this year because of the uncertainty created by the convictions in the price-fixing trials. As the two major companies in almost all phases of electronics, there is no doubt that both will participate heavily in the growth of the industry. **However, with heavy participation in consumer goods fields, their overall profitability is subject to swings.**

In 1960 GE had a poor year, with earnings slipping to only $2.26 per share from $3.19 a year earlier. In part, earnings were hurt by the strike early in the year, but the general recession took the biggest toll.

1961 will probably also be a "down" year for GE. But the year will also mark a change of emphasis in the business, with consumer products dropping in importance in favor of new forms of power generation, space activities and computers.

GE will continue to be a major contributor and beneficiary of the electronics boom. The outlook for the stock, however, is clouded by the penalties that are still to be determined in the price-fixing case. The company is on record as believing that damages will be small. But with all large municipalities seeking redress, and with utility commissions expected to urge utility companies to sue, it is too early to reach final judgment on the issue. One thing is certain—GE will be subjected to adverse news stories for some time to come, increasing the market risks for the stock.

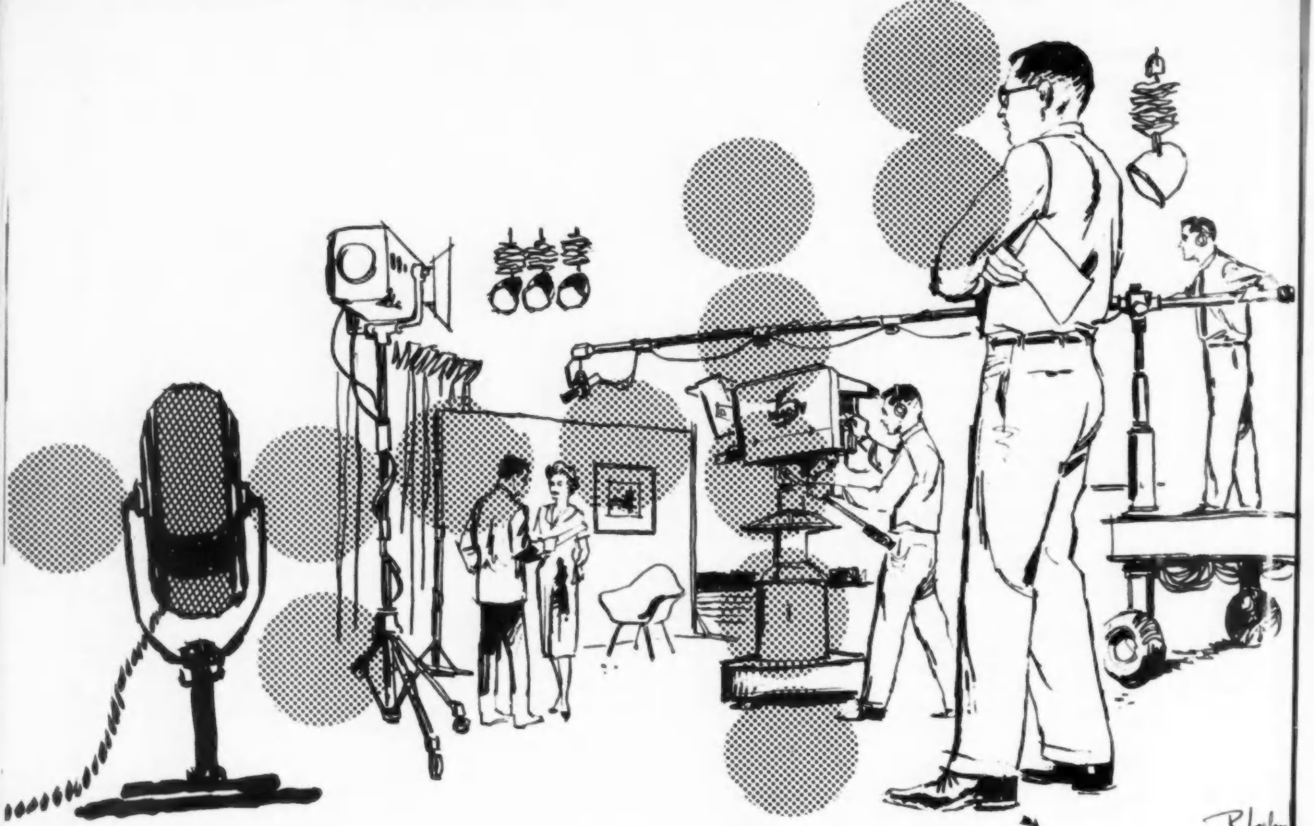
Westinghouse fared slightly better than GE in 1960 but its earnings also declined to $2.22 from $2.43 in 1959. In general, the same economic conditions that affected GE hit Westinghouse, except that the latter did not have a major strike to contend with.

In 1961, only a major—and unlooked for—pickup in appliance demand will stimulate earnings increases. Hence, earnings roughly equal to the 1960 figures can be expected.

As for the price-fixing damages? Westinghouse has made no estimates, but there can be no doubt that the company is at least as vulnerable as GE. Both stocks have unattractive potential at the moment. But each has enough assured growth to become an excellent holding when the price-fixing business has been dissipated.

Component Makers and Specialty Companies

In general, the better *(Please turn to page 48)*



Electronics . . .

Section Two

Electronics . . .
II—RADIO and TELEVISION

By STANLEY DEVLIN

► **Problems piled up for the set makers — what of 1961?**
► **Appraising varying status for the individual companies — those in the best position — those that will hold their own —move ahead — decline further . . . 1961 outlook for each**

THE year 1960 was a particularly bitter one for the producers of radio and television sets. As the year opened it appeared that most companies had finally reached a position where they would be able to show some profits after several lean years. Instead, business conditions turned downward, and consumer spending for durable goods dropped off sharply.

The severity of the drop in business is perhaps best illustrated by the fact that only one company, **Magnavox**, was able to report higher earnings for the year, while several others plummeted into near deficit operations. Despite the dismal year, however, all is not black for the set makers. There are a few new developments in the wind that may make things better, if not extremely rosy.

Growth now comes slowly for this end of the electronics industry. New products, such as electronic ovens and other "home automation" devices, are expensive and still several years away from mass popularity. Hence, the industry must rely almost solely on the old stand-bys, namely radio and television sets—with the hope of an additional boost from the recently healthy phonograph market. Fortunately there are new stimulants developing in these fields.

The first is color. After years of pioneering by RCA, Zenith recently announced that it too is ready to begin the production of color television sets. This announcement was particularly important because Zenith is probably the best managed company in the field, and one of the best nose for profits. Color may still be a year or two away, but Zenith's entry into the field at least holds out hope that it is close to a reality as far as mass market appeal is concerned.

The second new stimulant is the pressure being brought on the industry by the F.C.C. to provide

Leading Companies In Radio and Television

	Earnings Per Share				Dividends Per Share					
	1958	1959	1960*	Cash Earnings Per Share	1958	1959	Current Annual Div. †	Recent Price	Div. Yield	Price Range 1960-61
Admiral Corp.	$ .58	$1.71	$ .35[7]	$ *	$ —	$ —	$—	13	—	23⅞-10
American Broad, Paramount Theat.	1.21	1.87	2.50	*	1.00	1.00	1.00	46	2.1%	52½-25¾
Columbia Broadcasting System	3.01	3.01	2.77	*	1.00	1.25[3]	1.40	38	3.6	45¼-34
Consolidated Electronic Industries	1.23	1.80	1.40[7]	*	—	—	1.00	45	2.2	60¾-38⅝
Emerson Radio & Phonograph	.72[1]	1.30[1]	.80[1]	*	4	4	4	74	—	75 -33
General Telephone & Electronics Corp	.98	1.13	1.04	*	.66	.70	.76	27	2.8	34⅛-23¾
Hazeltine Corp.	1.50	1.77	1.70[7]	*	.70[3]	.75[3]	.80	33	2.4	35 -20
Hoffman Electronics Corp.	1.16	1.31	d.63	*	.50	.57	—[5]	20	—	30¼-14⅝
Magnavox Co.	1.19	1.99	2.75	*	.75[3]	.81[3]	1.00	60	1.6	62 -31¾
Motorola Inc.	1.90	3.59	3.40[7]	*	.75	.75	1.00	87	1.1	98 -60½
Philco Corp.	.61	1.67	.47	*	6	.25	—[5]	21	—	38¼-15⅞
Radio Corp. of America	2.01	2.65	2.10	3.81[2]	1.50	1.50	1.00[3]	57	1.7	78⅜-46½
Tung-Sol Electric	2.67	2.70	1.37	*	1.40	1.40	.70	27	2.5	40½-25⅜
Zenith Radio	4.10	5.63	5.11	*	1.66	2.75	2.75[7]	116	2.3	129⅜-89⅛

*—Not available at time of going to press.
†—Based on latest dividend rate.
d—Deficit.
1—Years ended October 31.
2—Includes Deprec. & patent amortiz.
3—Plus stock.
4—3% in stock.
5—No action 11/23/60.
6—Paid 2% in stock.
7—Estimated.

Ultra-High Frequency (UHF) bands on all new sets—a development which would tend to encourage the establishment of more UHF stations around the country, and open over eighty new channels for commercial, educational and special purpose television. A big step in this direction was taken just recently, when plans were announced to erect a UHF transmission tower atop the Empire State Building in New York, opening the way to UHF transmission in that city for the first time.

And Pay-As-You-See TV has finally moved into the tryout stage, with a three year test about to begin in Hartford, Connecticut. Past tests in the South and in Canada have been satisfactory but inconclusive. Now the Hartford experiment is expected to provide the final answer to the feasibility of this kind of entertainment.

Whether successful or not, the fact remains that new things are finally popping in the television industry. And it certainly needs it. Sales for the entire industry were roughly equal to the 1959 figure of $2 billion, and at most a five percent increase is projected for 1961. Actually, fewer sets were produced and sold in 1960 than a year earlier, although higher prices generally stabilized total sales figures. Predictions call for 6.5 million sets in the year ahead, but only 5.7 million were sold last year despite much higher predictions in the early months of 1960. Color and UHF cannot be expected to help this year, but by 1962 the industry may have turned the corner.

Radio set sales climbed 10% last year, largely because of the increase in car radios, and phonographs continued to sell better than expected, but these items are now peripheral for the set makers. Basically they rise or fall with the television market, and that will not be too good in 1961.

Mediocre Year Ahead

Despite the unexciting outlook for 1961, earnings may improve for many of the companies. For one thing, most expected too much from 1960, and therefore overproduced early in the year or took on excessive inventories. Furthermore, many in the industry are also defense contractors and stand to benefit from the larger outlays scheduled for electronics and missiles. In addition, several companies have also become large factors in the computer and semiconductor fields, so that in the future their earnings will not be dependent solely on radio and television.

Radio Corporation of America, long the dominant and most diversified company in the industry once again demonstrated its inability to maintain a consistent profits record. After a good year in 1959 which saw earnings jump to $2.52 from only $1.93 a share in 1958, profits again slipped in 1960. Sales improved by about $100 million, but net income fell to $2.10 a share.

In part, RCA's profits troubles stem from its attempt to do too much. As a major broadcaster, the company placed a big bet on color TV, since it had to produce both receivers and also the facilities for color telecasting. Now, when color set sales appear to be picking up, a good deal of the profit potential will be dissipated in the need to build additional color broadcasting facilities. On top of color, RCA is determined to become a major part of the data processing industry, in competition with IBM, National Cash Register and others with a big head start.

The effect on earnings can be seen in the record. Except for 1958, the latest reported figures were near the lowest in ten years, and little improvement can be looked for in the year ahead. With additional stock now outstanding as a result of bond conversions, it is doubtful that the previous dividend rate of almost $1.50 a share will be restored for at least another year.

RCA may have good long term potential, but investors can find better current value in other issues.

Zenith, one of the six remaining major television producers, has by far the best record. Nevertheless, growth came to a halt *(Please turn to page 47)*

Electronics . . .

Section Three

Electronics . . .
III—BUSINESS MACHINES

By W. A. HODGES

- **Promising future — but with enormous costs involved in electronic development for current and new type office equipment-computers**
- **The leader — the comers-up — and the earnings-dividend outlook for the individual companies**

THE office equipment makers did better in 1960 than most other industrial groups, but it was far from a banner year. Sales rose substantially, as more and more companies moved their new electronic products out of the development laboratories on to the production line. Costs, however, were so enormously high that little earnings progress was made.

In the year ahead things will be better. Office automation is about to spurt ahead rapidly, not only because industry needs it, but also because the productive capacity now exists to meet the demand. Aside from IBM, the acknowledged leader in the field, Sperry, Burroughs and National Cash Register, now have fully developed product lines and production facilities for manufacturing on a mass basis.

As in the recent part, however, full profitability will not be realized because of the enormous capital costs entailed in the development of new electronic equipment. In addition, since many of the new products are designed for rental rather than outright sale, the companies will suffer heavy financial drains in the initial stages of their programs.

Despite the problems, however, the promise ahead for the office equipment makers is becoming more evident each day. No longer is the field limited to computers, and a relatively few military uses. The concept of Electronic Data Processing, threatens to revolutionize operations for scores of industries from chemical and petroleum production, to banking, retailing and warehousing. **Thus, if the capital costs are high at the moment, it seems well worth it to the few companies best situated to obtain major portions of the enormous markets opening up.**

Leading Companies Manufacturing Business Machines

	Earnings Per Share				Dividends Per Share					
	1958	1959	1960	1960 Cash Earnings Per Share	1958	1959	Current Annual Div. †	Recent Price	Div. Yield	Price Range 1960-61
Addressograph-Multigraph	$1.62[1]	$1.61[1]	$2.02[1]	$2.54[1]	$ .68[5]	$ .75[5]	$ .90	86	1.0%	98 -63
Burroughs Corp.	.97	1.07	1.39	*	1.00	1.00	1.00	35	2.8	40⅜-26¼
Electronics Corp. of Amer.	.26	.21	.25	*	—	—	—	12	—	19½- 8⅛
International Business Machines	6.93	7.97	9.18	21.08[2]	1.14[5]	2.03[5]	3.00[6]	670	.4	676 -407¼
National Cash Register	2.19	2.52	2.52	*	1.20	1.20	1.20[5]	82	1.4	83 -49⅞
Pitney-Bowes	1.07	1.05	1.32	*	.53[5]	.58	.72	45	1.6	49⅞-29¼
Royal McBee	d.05[1]	.62[1]	.28[1]	2.39[1]	.80	.15	—	14	—	21⅜-11⅞
Smith-Corona Marchant Inc.	1.38[3]	.26[3]	d.24[3]	.83[3]	1.00	.35	—	17	—	18⅞-11½
Sperry Rand	.96	1.30	1.10[4]	*	.80	.80	[7]	26	—	27⅜-18¾
Telautograph Corp.	.37	.19	—	*	—	—	—	13	—	24½- 6⅞
Underwood Corp.	d3.55	6.42	d6.02	*	—	—	—	47	—	57 -24¾

d—Deficit.
†—Based on latest dividend rate.
*—Not available at time of going to press.
1—Years ended July 31.
2—Includes deprec. & amort. on rental mach., plt. & equip.
3—Years ended June 30.
4—Estimated.
5—Plus stock
6—$.60 per share dividend proposed on new 1½ for 1 split shares, payable 6/10/61.
7—Paid 2% stock in 1st Quar.

As investments, the business equipment manufacturers are difficult to appraise. That their future is bright cannot be questioned. But there is also little doubt that most of the stocks have amply discounted their success for many years to come. Price-earnings ratios, in most instances are enormous. IBM's price is more than 70 times 1960 earnings, National Cash Register is up around 40 times earnings, and most others are selling at over 30 times 1960 results.

Sperry-Rand is an exception because of its poor record in recent years. Not only has its earnings record been poor, but the company has also been backward in capitalizing on the big head start it obtained with the development of Univac.

There are signs, however, that things are changing at Sperry. The Computer Division is now under new and aggressive management, and may be on the verge of a comeback. Production of a few hundred Univacs for rental is well under way, and should move computer operations into the black by the end of the current fiscal year. In addition many of the other problems that resulted from the merger of Sperry and Remington-Rand seem to have finally been worked out, so that increased profitability from the company's varied activities appears in the offing.

Because of its spotty past record Sperry must be considered speculative, but it appears a worthwhile speculation for the venturesome investor. **Earnings for the year that will end March 31 will probably be down slightly from the previous year, but substantial improvement can be expected in 1961. By 1962, when capital charges begin to drop and rental revenues climb steeply, profits should start trending up-ward.**

It is difficult to find others in the industry that have not already discounted their bright future prospects. Even **Underwood,** which once collapsed in price under the combined impact of horrible deficits and the final abandoning of its electronics experiments, is a long way from the bargain counter. The company is now controlled by Olivetti, the highly successful Italian typewriter and business machine manufacturer. Under new management the company has been shaken up radically, and although operations are still producing deficits, it appears certain that good profitability will follow soon.

Nevertheless, investors, convinced that Olivetti will revitalize Underwood, have bought the stock so enthusiastically that its prospects for many years to come have been discounted. Last year Underwood had a $6.00 per share deficit on top of successive deficits in every year from 1956 on. Despite this record the stock has climbed from below $10 a share in early 1958 to a current quotation of well over $50. Investors had best steer clear.

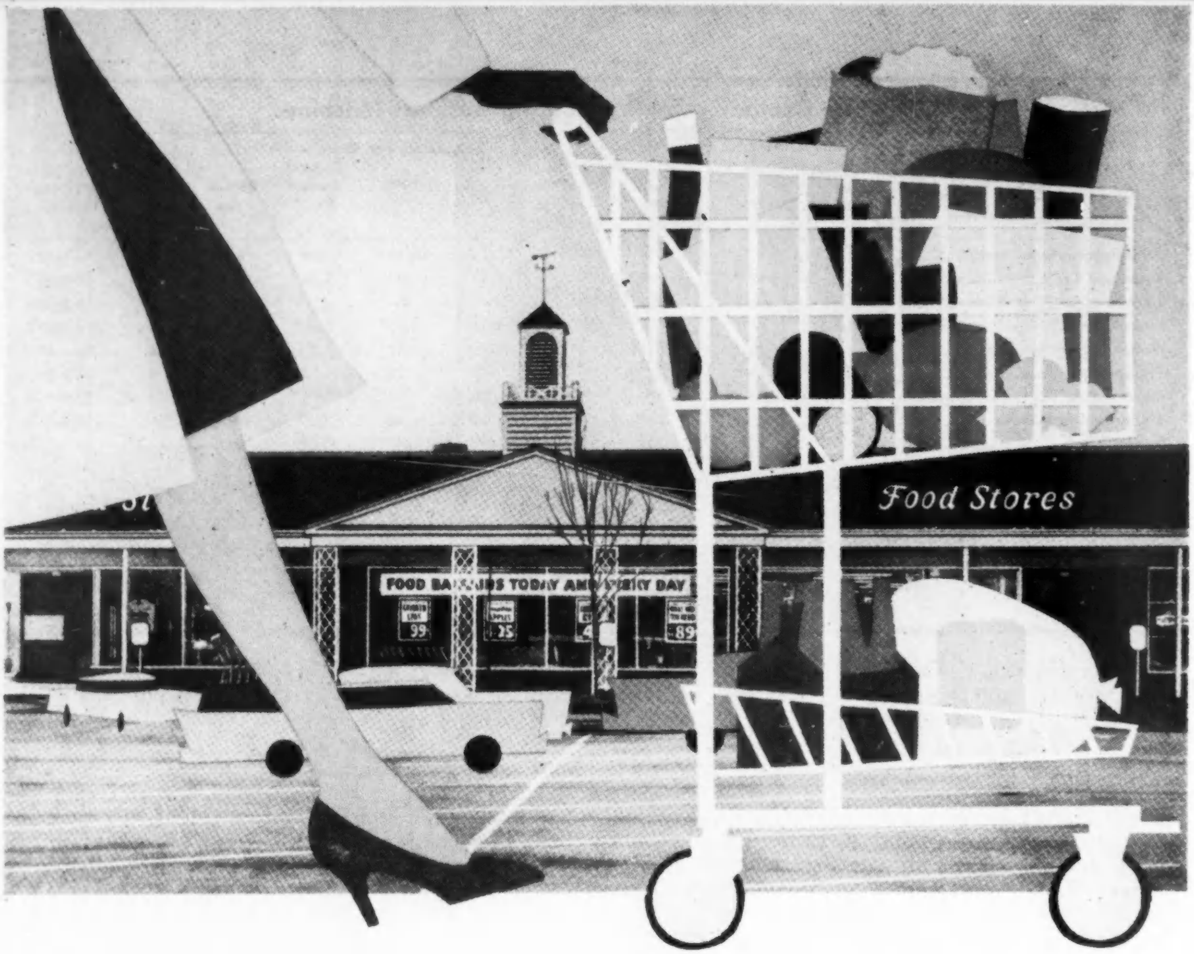
IBM Keeps Rolling Along

International Business Machines needs no introduction to investors. Even at its present historic high it remains the prime favorite in the group, and with good reason. Earnings rose another 20% in 1960, capping a decade of remarkable earnings growth. Cash flow of $21.00 per share brings IBM cash earnings in 1960 to a higher figure that all of the company's sales revenues as recently as 1952. Net income alone exceeds sales figures for every year prior to 1949.

IBM is obviously in a class all by itself. It has over 5,000 technically competent salesmen in the field—a force larger than the corps mustered by all of its competition combined. In addition its head-start in Europe lends promise that the company may be able to duplicate its performance abroad over the next ten years.

As an investment, IBM is out of the range of rational calculation, hence we cannot include the stock among our recommended issues. Nevertheless it represents one of the most fascinating sagas in the annals of American business. We also suspect that despite its high valuation it will continue to rise in price.

In 1961, further earnings progress is expected. Military production fell off in 1960 and may continue low in 1961, hence sales growth will not be as rapid as in the past several years. Nevertheless, increased revenues from its higher profit-margin commercial business should lead to earnings of well over $11.00 per share. *(Please turn to page 45)*



TRANSFORMATION of the FOODS from DEFENSIVE TO GROWTH STOCKS

By EDWIN CAREY

- **Catering to the revolution in living standards — women's activities outside the home — higher incomes — has produced a variety of new food products . . . frozen — pre-cooked — mixed — and even liquid foods . . . greatly expanding operations of the food companies**
- **Advent of the supermarket — diversification and multiple products for domestic consumption — expansion of activities into the foreign field now taking hold**
- **The almost unobserved growth of the food companies into multi-billion dollar entities — position of the individual companies — those with the best prospects and earnings outlook**

MOST investors have in the past regarded food stocks as defensive issues pure and simple, to be held for their attractive income, but otherwise lacking the appeal of the dynamic industrials. Although this situation has changed, this theory has been maintained despite the revolution in food products and the development of growth characteristics in the breadth of expansion that has taken place in the past decade.

Because economists have traditionally felt that the prosperity of our country depended upon luxury products and not on the stable items of consumption, the future of the food companies has been almost entirely calculated in terms of population increase. And this position still has some strong arguments to bolster it, in view of the population explosion which has taken place, and in the face of the enormous expansion in new categories and varieties of food products that have come into being in the past two decades.

New developments, marketing innovations, product experimentation, ventures into the foreign field, and other aggressive actions have all introduced an exciting new look in the food manufacturing and distribution industries. Among two of the companies with the most impressive recent records are **Campbell Soup** and **H. J. Heinz**, which were covered a short

Statistical Data on Food Processors

	1959 Net Sales (Mil.)	1959 Net Profit Margin	1959 Net Earnings Per Share	1959 Div. Per Share	1960 Net Sales (Mil.)	1960 Net Profit Margin	1960 Net Earnings Per Share	Indic. Current Div. *	Recent Price	Price Range 1960-61	Div. Yield
Allied Mills	$112.8[1]	2.6%	$3.71[1]	$2.25	$105.6[1]	2.3%	$3.02[1]	$2.00	42	42⅝-32	4.7%
Beatrice Foods	335.6[2]	1.7	1.72[2]	1.80	360.8[2]	1.7	1.81[2]	1.60	58	64 -37	2.7
Beech-Nut Life Savers, Inc.	115.5	7.0	2.53	1.60	118.3	7.6	2.80	1.70	59	59¾-32½	2.8
Borden Co.	941.3	2.7	2.61	1.50	956.0	2.8	2.71	1.50	60	67¾-40¼	2.5
California Packing	161.8[10]	4.0	1.32[10]	1.12	162.7[10]	4.0	1.28[10]	1.25	48	49¾-27¼	2.6
Campbell Soup	496.5[3]	6.9	3.21[3]	1.65	516.1[3]	7.7	3.71[3]	2.00	92	96½-45	2.1
Consolidated Foods	358.6[1]	1.6	1.98[1]	1.00[7]	424.8[1]	1.6	2.27[1]	1.20	42	44¼-26	2.8
Corn Products Co.	676.3	4.9	3.04	2.00	691.3	5.5	3.48	2.40[9]	89	94 -46½	2.6
Foremost Dairies	440.0	2.3	1.35	1.00	437.7	1.6	.93	[8]	14	19⅜-12	—
General Foods	778.6[2]	5.5	1.77[2]	1.27	846.0[2]	5.6	1.93[2]	1.40	78	80½-61½	1.7
General Mills	265.9[4]	1.6	.54[4]	1.05	285.2[4]	2.0	.75[4]	1.20	34	37 -23⅞	3.5
Gerber Products	95.9[2]	5.4	2.46[2]	1.80	101.5[2]	5.7	2.78[2]	1.80	82	89¼-42	2.1
Heinz (H. J.)	167.4[5]	3.5	1.13[5]	.73	178.3[5]	3.7	1.30[5]	1.00	52	53 -49⅛	1.9
Hunt Foods & Industries	N.A.	N.A.	N.A.	.50[7]	150.1[10]	3.6	1.17[10]	.50[7]	48	48¼-24⅛	1.0
Libby, McNeill & Libby	296.1[1]	1.9	1.25[1]	.40	294.7[1]	1.4	.88[1]	.40	13	13¼- 9⅛	3.0
National Biscuit	428.9	5.7	3.57	2.30	451.8	6.1	4.10	2.80	80	83¾-49¾	3.5
National Dairy Products	1,199.3[2]	3.0	2.63[2]	1.95	1,250.8[2]	3.0	2.66[2]	2.00	67	67½-44⅝	2.9
Penick & Ford	56.9	8.2	3.18	2.20	55.5	8.5	3.23	2.20	56	60¼-44	3.9
Pet Milk	190.2[6]	1.8	2.85[6]	.73	195.3[6]	1.8	2.43[6]	1.00	45	46 -30	2.2
Pillsbury Company	181.8[4]	1.7	1.52[4]	1.36	183.0[4]	2.0	1.72[4]	1.40	48	52 -31⅝	2.9
Quaker Oats	322.1[1]	4.0	3.29[1]	2.00	321.8[1]	4.2	3.40[1]	2.00	66	69 -42	3.0
Standard Brands	521.7	3.0	2.30	1.35	526.5	3.3	2.56	1.60	56	57⅝-35⅛	2.8
Stokely-Van Camp	71.4[4]	1.7	.50[4]	.60[7]	69.3[4]	2.6	.80[4]	.60	21	22 -14	2.7
Sunshine Biscuits	197.8	3.9	6.58	4.40	200.0[11]	N.A.	6.65[11]	4.40	112	113 -85	3.9
United Biscuit	103.1[2]	1.3	1.17[2]	.90	101.0[2]	1.7	1.65[2]	1.00	45	45½-24	2.2
United Fruit	312.9	3.8	1.39	1.50	304.4	3.7	.25	.50	24	31¼ 14⅞	2.0

*—Based on latest dividend rate.
N.A.—Not available.

1—Year ended June 30.
2—9 months.
3—Year ended July 31.
4—6 months ended Nov. 30.
5—6 months ended Oct. 31.
6—12 months ended Dec. 31.
7—Plus stock.
8—Payable 1/200 sh. 4½% Pfd. stock.
9—Vote 4/25/61 on 2 for 1 stock split.
10—6 months.
11—Estimated.

Allied Mills: A leading producer of livestock, poultry feeds and products from soybeans and alfalfa. Earnings are usually stable. Moderate recovery indicated. **B2**

Beatrice Foods: As third largest in the dairy products field, this company now derives 30% of its sales from non-dairy products. Management has excellent record and shows ability to steadily increase earnings. **A1**

Beech-Nut Life Savers: Company should benefit from 1960 price increases in chewing gum, Life Savers, and baby foods. However, advertising expenses will be increased in 1961, possibly limiting earnings gains. Company has ample cash for expansion. **A1**

Borden Co.: Second largest in dairy products, company also produces chemicals and specialty foods. Strong foreign position with sales abroad of roughly $75 million and unconsolidated earnings equity of nearly $0.40 per share. **A1**

California Packing: World's largest packer of fruits and vegetables. Well known for Del Monte brand. With canned vegetable prices higher, earnings trend should continue favorable. **B1**

Campbell Soup: Largest producer of canned soups now in aggressive expansion abroad. Acquisition of Pepperidge Farm should benefit earnings as well as broaden line. Basic strength is relatively low price of quality product and convenience items. **A1**

Consolidated Foods: A leading canner and distributor of food products, company also operates over 100 supermarkets. Management is acquisition-minded. **B2**

Corn Products: Company has broad line of branded consumer products which contribute 45% of sales dollar from only 15% of unit shipments. As world's largest corn refiner, 65% of unit shipments go to industry. Company has fine earnings record. **A1**

Foremost Dairies: Company has entered weight reducing field with "Fortical." Numerous acquisitions during the '50s resulted in growth, but also complaint by Federal Trade Comm. Preferred stock recently paid in lieu of cash. **B4**

General Foods: Largest in the packaged food field with numerous well-known brands. Well established growth trend in convenience foods. **A1**

General Mills: By far the largest miller of flour, the company has typically low profit margins and record of earnings stability rather than growth. **A2**

Gerber Products: Last year's increase in baby food prices is favorable as well as the general growth trend in these foods. The company is benefiting from the expansion program of recent years. **B1**

Heinz (H.J.): About one-half of sales and two-thirds of profits are from foreign operations which have shown a good rate of growth. Domestic operations are being streamlined to show better margins. **A1**

Hunt Foods: Company produces foods, matches, cans, glass containers, and can-making machinery. Merger with Wesson Oil & Snowdrift last year. **C1**

Libby, McNeill & Libby: A large and diversified packer of canned and frozen foods. Earnings for fiscal '61 could show a slight gain over fiscal '60. **B2**

National Biscuit: As largest producer of cookies and crackers, the company accounts for 35%-40% of the total U.S. market. Record of earnings stability and moderate growth, with better than average earnings gain in 1960. **A1**

National Dairy Products: The largest producer of dairy products. Stable earnings with moderate uptrend in earnings. Profit margins should continue favorable. **A1**

Penick & Ford: Absence of last year's starting-up costs on a new plant and low raw material costs (especially corn) point to a further gain in earnings, despite lower prices on some product lines. **A1**

Pet Milk: Some changes in policy and top-level personnel suggest improvement for this company. Record of stability with slow growth. **B2**

Pillsbury Co.: As second largest flour miller, the company now derives most of its profits from convenience foods such as prepared food mixes and refrigerated biscuits. **A1**

Quaker Oats: Cereals account for 28% of sales, feeds 22%, pet foods 20%, flour 6%, prepared mixes 5% and chemicals 20%. Record of stability and slow-growth. Company has "Quota", a new weight control product. **B1**

Standards Brands: Known for its Chase and Sanborn coffee, Tender Leaf tea, Royal Puddings and Fleischmann's yeast, this company shows a better than average growth trend. Further gains likely. **A1**

Stokely-Van Camp: The past record of this large producer of canned vegetables, and pork and beans, shows wide fluctuations in earnings. Trend upward at present. **B1**

Sunshine Biscuits: Second largest in the specialty bakery field, the company has branched out into potato chips and snack items through acquisitions. **A2**

United Biscuit: The past record of earnings suggests shrinkage rather than growth. However, extensive management changes have occurred. New Denver plant will replace older facilities. **C3**

United Fruit: Various adverse developments in recent years, including crop failures, low banana prices and loss of Cuban sugar properties. Outlook clouded. **C4**

RATINGS: **A—Best grade.**
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from lows.
4—Lower earnings trend.

time ago in the December 31, 1960 issue of The Magazine of Wall Street. But numerous others too, now qualify clearly as growth companies.

While in the present article we deal with the domestic activities of the food oompanies, we want to call attention to the expansion into the foreign field and the particularly attractive opportunities which have been opened up in Europe by many of the food processors, and the supermarket trend, perhaps close to saturation here, is just beginning to bloom on that continent, while packaged products and brand emphasis are also finding a large void to fill. Hence, the leading food companies are becoming international in character and should no longer be considered from a purely domestic standpoint.

Recognizing a Trend

Certain changes in living habits have had significant effect on food consumption. More leisure time, higher consumer income, less kitchen help, a desire for varied menus already have had dietary consequences, and the new trends will become even more apparent as we move further into the decade of the '60's, and as further progress is made in the movement toward "suburban living". As one food executive has pointed out, "While these changes are seemingly rapid, they will take a long time for deep penetration. Therefore, the basic factors favoring producers of convenience foods should be with us for some time.

Particularly prominent has been the rapid growth of frozen foods. Between 1949 and 1959, annual sales of frozen vegetables, for example, increased from 563 million lbs. to 1,627 million lbs. Even so, a recent survey revealed that 40% of the homes in the U. S. rarely use frozen foods at all. While part of the answer may be inadequate freezer space, a similarly low level of market saturation also applies to other convenience foods such as cake mixes, instant puddings, and even canned goods.

Families making frequent use of prepared and semi-prepared foods are evidently more susceptible to innovations in their eating habits. With prepared foods housewives are continually making new discoveries in menu planning. This factor alone could prove to be important in hastening the penetration of packaged food items, for such products still hold a minor place in the total food budget. A housewife may now create new dishes without starting with the raw ingredients which involve peeling, scraping, or other troublesome preparation. Then, too, the purchase of raw ingredients involves greater uncertainty as to quality, whereas a housewife who opens a can of cherry filling for making pies knows that the quality will be uniform.

Research Becomes Important

The whole idea of convenience foods suggests that a wide range of products are possible, and indeed new brands appear nearly every day. We hear of new instant pie mixes, cake mixes, other instant desserts, new sauces, salad dressings, and instant beverages. The development of such products requires research to obtain the best possible flavors, plus a different kind of research to set up workable production lines and to keep the cost to the consumer low. President W. B. Murphy of **Campbell Soup** estimated that by 1963 the food and kindred products industry will spend about 40% more on research than in 1959.

The government also has had a hand in food research. In 1953 the U.S. Army began to investigate irradiation as an entirely new concept for preserving foods. At least five major companies have also conducted programs of their own. There is little doubt that irradiation can preserve foods, and in time the impact on the food industry may be great. Of the food preserving industry's present $75 billion annual volume, 63% is processed food that might some day utilize irradiation techniques in replacement of much of the present day freezing and canning. This is still however, a project of the future, and research so far has been disappointing. Irradiation of meat, for example, seems to set up an objectionable odor While limited tests show that irradiated products have no ill effects on humans, additional experimentation on this possibility is necessary before public distribution could be contemplated.

A Trend Toward a Meal-in-a-Glass

Drug Producer—Mead Johnson's Metrecal has been such an overwhelming success that many other leading food companies have hurriedly begun to develop and introduce products aimed at this new $100 million annual business. Metrecal was the first, by far, making its appearance in late 1959, and with national distribution now has most of the market for complete low-calorie mix-it-yourself-in-a-glass meals. Soon it will also be sold in liquid form via vending machines at 50¢ per eight-ounce can. Present distribution is mostly through drug stores, department stores, and recently in food stores.

Borden is now getting Mid-West distribution of its "Ready Diet 900" (900 calories per drink) in half pint containers selling at 25 cents. Borden's strong position in distribution of other products through supermarkets gives it a very strong advantage in getting broad distribution quickly on new products.

General Foods is test-marketing "Brim", a new breakfast food powder which is simply mixed with milk. It is billed as "breakfast in a glass" and offers proteins, vitamins, and minerals comparable to two eggs and two strips of bacon. When mixed with whole milk it produces a 260 calorie meal, or with skim milk the calorie count is 201. Of equal importance it is also a convenience food—for the new strong demand that has been "created by changing living habits that have led to skimpy breakfasts by millions of young people and adults," to quote a General Foods statement.

Mead-Johnson has also recently brought out "Nutrament", primarily a convenience food rather than a weight-control product. The 12½ ounce can produces the equivalent of a 400 calorie meal. A large glass of vanilla or chocoate flavored drink provides a "full, adequate diet", according to management.

(The writer still nourishes a hope that such products will never entirely replace the steak dinner, although Mead insists that Nutrament offers a "scientifically balanced ratio of all the elements known to be needed for proper nutrition".)

Other weight control products are in the offing such as **Foremost Dairy's** "Forti-Cal" and **Quaker Oats's** "Quota", the latter introduced through supermarkets in September, 1960. In late November,

Vital Statistics on Food Store Chains

	1959 Net Sales (Mil.)	1959 Net Profit Margin	1959 Net Earnings Per Share	1960 Net Sales (Mil.)	1960 Net Profit Margins	1960 Net Earnings Per Share	Indic. Current Div. *	Recent Price	Price Range 1960-61	Div. Yield
ACF-Wrigley Stores Inc.	$363.1[1]	.9%	$4.50[1]	$348.4[1]	10.6%	$5.09[1]	$ .40	17	19⅛-12	2.3%
American Stores	663.6[2]	1.0	3.83[2]	N.A.	N.A.	4.46[2]	2.00[4]	77	85⅝-61¼	2.5
First National Stores	525.3	1.5	5.02	N.A.	N.A.	4.50[6]	2.50	62	64⅞-47½	4.0
Food Fair Stores	581.5[5]	1.4	1.59[5]	638.6[5]	1.3	1.62[5]	1.00	39	39⅜-29	2.5
Grand Union Co.	603.4	1.4	2.12	604.2	N.A.	1.80[6]	.60	34	34⅝-26	1.7
Great Atlantic & Pac.	N.A.	N.A.	1.03[7]	N.A.	N.A.	1.21	1.20[4]	49	49¾-30¼	2.4
Jewell Tea Co.	490.9	1.8	2.74	509.1	1.9	2.80	1.40	52	55⅝-40¾	2.6
Kroger Co.	1,911.9	1.3	2.06	1,870.2	1.2	1.87	1.10	30	36¾ 25¾	3.6
National Tea Co.	829.5	1.1	1.28	855.8	1.0	1.23	.80	20	20¾ 14½	4.0
Safeway Stores	2,383.0	1.4	2.82	2,468.9	1.4	2.72	1.50	43	44 32½	3.4
Winn-Dixie Stores	380.9[3]	2.1	.64[3]	398.5[3]	2.1	.67[3]	.72	27	29¼-25⅜	2.6

*—Based on latest dividend rate.
N.A.—Not available.

1—Year ended June 30.
2—40 weeks ended 1/2/1960 and 39 weeks ended 12/31/60.
3—28 weeks ended January 7.
4—Plus stock.
5—40 weeks ended Febr. 4, 1960 and 1961.
6—Estimated.
7—26 weeks ended 8/27.

ACF-Wrigley Stores: Disposal of unprofitable Cleveland store and merchandising changes helped recent earnings recovery. Chain of more than 200 stores in Wisc., Mo., and Okla. **C1**

American Stores: Merger with Alpha Beta markets in Los Angeles gave this East Coast operator of 850 food markets a foothold in the Far West. New stores helped earnings improvement in 1960. **B1**

First National Stores: Leading New England food chain. Competition from larger supermarkets in key areas. **B4**

Food Fair Stores: Company has good growth record. However, some areas served are well supplied with stores. Venture into gasoline stations and auto accessories may have limited success. **B1**

Grand Union: Heavy store opening expanses and lower prices have restricted profit margins. Concentration of stores in New York City, where prices are soft at times due to competition. **B2**

Great Atlantic & Pacific: By far the largest grocery chain with 4,300 units, company has opened 995 new stores in the last six years. Well-sustained long term growth trend. **A1**

Jewel Tea: About three-fourths of the volume from 278 markets is provided by the metropolitan areas of Chicago, Gary and Hammond. Company operates a system of direct delivery of grocery products and household items over a wide area. **B2**

Kroger Co.: Third largest chain with 1,370 stores in the Midwest and South. Continued opportunities exist to replace small stores in its area with large one. **A2**

National Tea: Most of the 900 stores are in Midwest, with 53 new units opened in 1960. Recently acquired a bakery chain. **B2**

Safeway Stores: Second largest food chain with sales of $2.5 billion from 2,200 stores. Company is one-half the size of A & P. Process of closing small stores and adding larger ones should provide further growth. **A2**

Winn-Dixie Stores: Growth prospects in the Florida-Southeast area appear to be above average. With 526 markets in operation, the company opened 50 new units in 1960. About the same numbers are planned for 1961. **B1**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from lows.
4—Lower earnings trend.

National Dairy introduced "Sealtest 900," a high protein weight control product. A number of department stores such as **Macy's** have introduced their own brands of low-calorie drinks. However, Mead Johnson is so well established that its name Metrecal is almost generic, and people ask for "Macy's Metrecal".

Government Regulation a Factor

Generally speaking, food companies that are able to develop products from research (such as Metrecal) and are able to develop brand acceptance for their products will obtain a better profit margin than sellers of staples or bulk food stuffs. Sellers of flour, for example, must nervously watch the gyrations of the commodity markets where they purchase their most important raw materials, and at the same time maintain profit margins where the low sales price of the end product allows little margin for error.

This is where government policy has its influence; it keeps raw material prices from dropping below specified levels but places little or no limit on the upside price fluctuations that are so dangerous to staple food producers. The Soil Bank has diverted acreage away from edible crops to soil conservation to keep the price of wheat above desired levels. The Commodity Credit Corp. attempts to control inventory accumulation by acreage allotments and marketing quotas.

Many staple food producers apparently face a relatively elastic demand for their end products, so that a slight upward change in price might result in a switch by the consumer to a substitute product. At the same time these producers buy their raw materials from the widely fluctuating commodity market. When commodity prices are rising their profit margins tend to narrow, there being a natural reluctance to pass along these cost increases by raising prices. But when commodity prices are declining end product prices sometimes decline too, due to severe competition.

Interesting Characteristics of Some Companies

This factor of dependence on farm commodities is illustrated at least partially in **Allied Mills.** This leading producer of animal feeds recently put into operation a new soybean processing plant, then saw the price of soybeans *(Please turn to page 50)*

FOR PROFIT AND INCOME

Inside The Market

Stock groups performing better than the market at this writing are principally aluminum, auto parts, beer issues, dairy products, food brands, food stores, motion pictures, office equipment, publishing—and electrical equipment in a technical rally following large decline. Some groups currently faring worse than the market are aircrafts, air transport, construction materials, coal, copper, finance companies, machinery, meat packers, paper, television-electronics, soft drinks, steel and sugar.

Strong

Relatively few "old-line" industrial Blue Chips are showing exceptional strength at this time. They include Gillette, International Business Machines, National Dairy, Reynolds Tobacco and Sterling Drug. Among other stocks meeting above-average demand are: Allied Mills, Boeing Airplane, Carrier, Continental Steel, Gardner-Denver, Grace, Grand Union, Lorillard, Magnavox, Paramount Pictures, Seaboard Finance, Simmons, Spalding, Trane, Twentieth Century-Fox, Union Oil and Hiram Walker.

Earnings

In the case of annual earnings reports, the profit shown (if any) amounts to a total of varying results for four quarters. In many lines of business, 1960 fourth-quarter profits showed large decline since the first quarter. You would not know that if you merely took a glance at the per-share profit figure for the year. It will, of course, be different with the first-quarter reports which will begin to come out within a few weeks. Many will show sharp year-to-year declines and the figures may startle some stockholders. Whether the market will be able to ignore them remains to be demonstrated. Some fields in which sizable-to-large shrinkages will be shown are automobiles and auto parts, building materials, chemicals, copper, electrical equipment and appliances, machinery, metal fabricating, rail equipment, steel and

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Oklahoma Natural Gas	12 mos. Dec. 31	$2.04	$1.94
San Diego Gas & Electric	Year Dec. 31	1.91	1.83
Babcock & Wilcox	Year Dec. 31	2.88	2.58
Bristol-Myers Co.	Quar. Dec. 31	.50	.44
Gillette Co.	Year Dec. 31	3.98	3.34
Niagara Mohawk Power	Year Dec. 31	2.24	2.07
Florida Power & Light	Year Dec. 31	2.11	1.93
Grumman Aircraft Eng.	Year Dec. 31	3.77	2.24
Shamrock Oil & Gas	Year Nov. 30	3.00	2.64
Oxford Paper	Year Dec. 31	2.26	1.77

textiles. The gains will be mostly in lines which fared well in 1960, including finance companies, foods, tobaccos and electric and gas utilities.

Dividends

The month-to-month "box score" on dividends will not get better until some time after business has turned upward, because it will take more than the probably slow initial improvement to make much difference in the earnings picture. The February declarations showed a total of 1[illegible]9 extras or increases in rates, against 199 a year earlier; and 5[illegible] reductions or omissions, against 29 a year ago. The March figures may not differ much from these.

Insurance

Stocks in the casualty and fire insurance field have performed better than the market both in 1960 and in 1961 to date. They appeal mainly to relatively conservative investors, including some institutional funds. Among types of issues meeting the requirements of such investors, selected insurance equities remain among the more reasonably priced. In most cases they are selling around 15, or less, times per-share investment income, which is the steady and gradually growing return in this business. It is the source of dividends and in most cases covers them around twice or more. Total earnings can vary widely because underwriting losses — the general rule in recent years — are a subtraction from investment net, while a profit becomes an addition to it. The basic underwriting trend is favorable because of cumulative benefits of rate increases, more careful screening of risks and generally tighter cost control. Barring major disasters, such as last September's Hurricane Donna, most companies should have underwriting profits this year and sharply higher total earnings. We have heretofore recommended Continental Insurance and Reliance Insurance in these pages, and still think they have potentials for substantial appreciation. There are others. We cite one of them below.

Aetna (Fire) Insurance

The beginnings of this company go back over 140 years. While fire insurance is featured in the name and was once dominant, it now accounts for less than half of annual premiums. Practically all types of property and liability insurance are offered. Net underwriting profit in 1960 was $1.86 a share (including equity in the increase of unearned premiums), against 1959 loss of $2.48. Investment income slightly exceeded $8.00 a share, up from $7.27 in the prior year. Combined net earnings thus rose to $9.87 a share, from $4.81 in 1959, and set a new record. It should be exceeded this year. The $3.00 dividend basis, including $0.40 extra paid early this year, appears subject to liberalization. Around 107, yielding 2.8% on present payments, the stock is priced at less than 11 times 1960 earnings and little over 13 times 1960 per -share investment income. Although already in new high ground, it should work higher over a period of time.

Some Big Gains

Various stocks recommended here not too long ago are now "up there." One is Brunswick Corp., recommended last October at 35 (adjusted for a split), recently up to a high of 74 and currently 66⅝. The high was over 32 times 1960 earnings, which rose over 33% to $2.28 a share. A further, but smaller, 1961 gain is likely. We cannot say when the bowling boom will level off, but it will not run forever. Profit taking appears in order on rallies . . . First recommended at 40 late in 1958, Revlon recently rose to 122½ and is at 116 at this writing. As was stated before, nobody can figure the potential in the company's new cream for correction of skin wrinkles, given the expected clearance of the product by the Federal Drug Administration. It could be spectacular. Frankly, we are scared of a profit-taking suggestion on this one. Stick with it, pending further developments . . . Emerson Electric, recommended in August, 1959, at 31 (adjusted for a split is now at 74. Profit rose 21% to a record $2.74 a share last year, and may gain almost that much in this year of depressed earnings for most manufacturing corners — in this case, small electric motors, lighting fixtures and military electronic equipment. The stock is now valued in the vicinity of 24 times likely 1961 earnings, which is not cheap. However, the valuation is considerably less than, and the growth rate superior to, those of most so-called "leading" growth stocks. Long-range potentials still look good. Stay with holdings.

Beneficial Finance

The stock of this second largest small-loan company was recommended in April of last year at 24. It is now up 66% to 40, with current yield only 2.5% on a $1.00 rate. This is in so sense a dynamic situation. Profit rose roughly 8% last year to $2.32 a share and might gain in about equal degree this year. The dividend could be raised, possibly to $1.20 for potential yield of 3% at the present price. We think the stock has run too far ahead of the company's prospects and advise profit taking. In the same field, if one wishes to stay in it, Household Finance, at 37, offers a yield over 3.2% on a $1.20 cash rate, plus stock dividends which have ranged from 4% to 5% annually over the last five years.

END

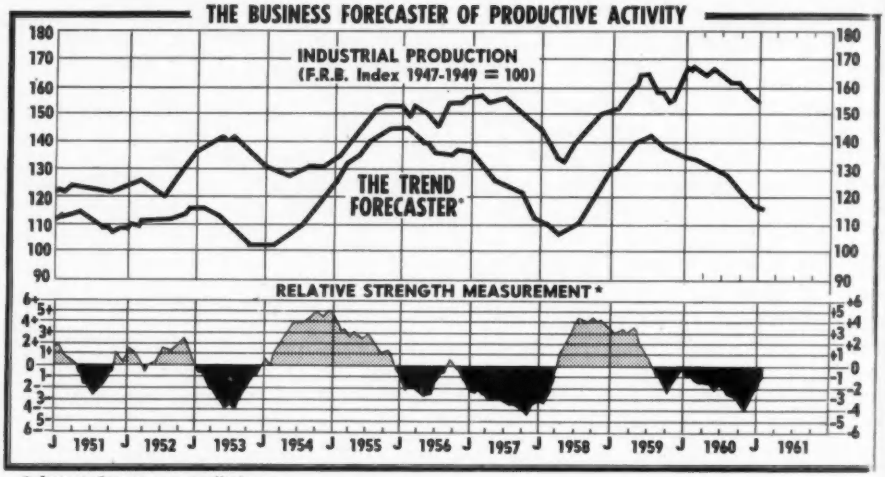
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Aluminum Co. of America	Year Dec. 31	$1.76	$2.52
American Bakeries Co.	12 weeks Dec. 31	.58	.76
Bath Iron Works	Year Dec. 31	5.82	6.09
Royal Crown Cola	Year Dec. 31	.77	1.54
Champion Paper & Fibre	Quar. Dec. 31	.20	.51
Studebaker-Packard	Year Dec. 31	.09	4.36
Woodward Iron Co.	Year Dec. 31	1.94	2.13
Owens-Illinois Glass	Year Dec. 31	4.10	5.20
St. Joseph Lead Co.	Quar. Dec. 31	.32	.62
Tishman Realty & Construction	Quar. Dec. 31	.01	.23

the Business A

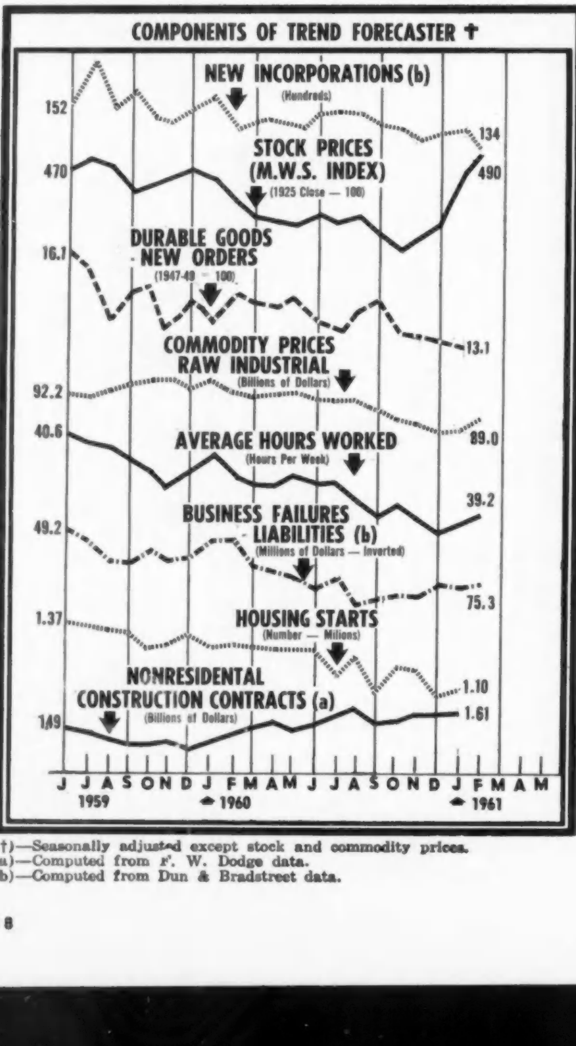
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Looking at the leading indicators from a short-term basis, we find that a good majority are trending higher, although the duration of the advance has been short in most cases. In the latest period, six of the eight series showed improvement, including housing starts, nonresidential construction contract awards, stock prices, raw industrial material prices, business failures (inverted) and hours worked.

With most of the indicators advancing, the Relative Strength Measurement has moved up further and on the basis of the latest estimates it reached the minus 1 level in February. Although a majority of the indicators were higher in the latest month, gains in some cases have been too small to reverse their intermediate trend and this is why the Relative Strength Measure is still in minus territory. However, it has risen rapidly from the low of minus 4 set in November, 1960 and could move into positive ground in the next few months. Meanwhile it is forecasting a bottoming-out in the economy this Spring, but is still not signalling any nearby upturn.

Analyst

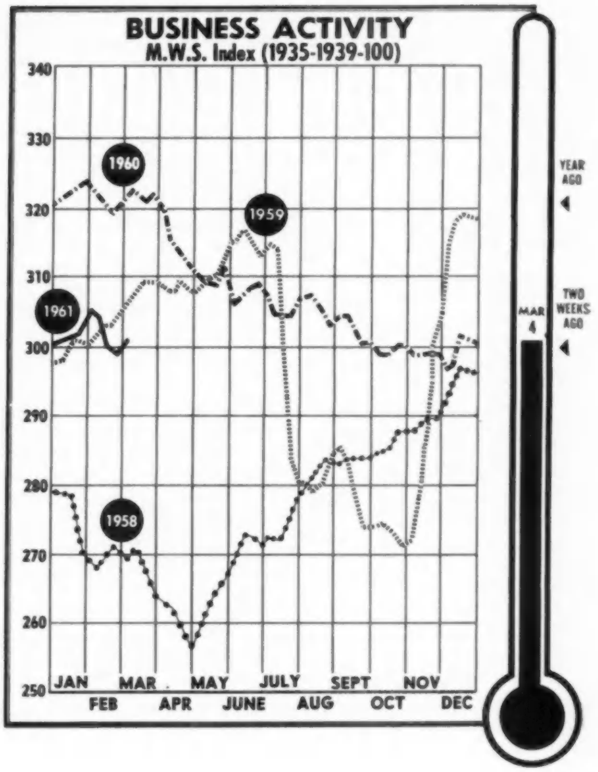
CONCLUSIONS IN BRIEF

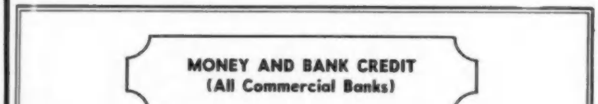
PRODUCTION—Divergent trends continue to characterize production, with over-all output appearing more resistant to decline. Paperboard and electric power production now on upgrade but output of minerals may lag. Look for cross-currents to continue for some time, with no clear-cut trend in evidence.

TRADE—Consumer buying has made a healthy recovery from weather-depressed levels of late January. However, the improvement was partly due to demand that had been deferred during the bad weather. Retail sales may level off somewhat in the weeks ahead but should hold above the lows reached early this year.

MONEY & CREDIT—Bond prices ease slightly as corporate new offerings build up and investors wait for possible business upturn. No great change in bond yields to be expected in the next few months.

COMMODITIES—Raw industrial material prices continue to move higher, with steel scrap a feature, as manufacturers move to replenish stocks of raw materials. Further moderate gains in store for the near-term.





*Demand deposits of all banks plus currency outside the banks.

THE economy appears to show somewhat greater stability in recent weeks and the downward slide is giving way to the mixed trends characteristic of a bottoming-out process. Although this behavior resembles the pattern of developments that preceeded previous post-war upturns, it does not guarantee that a recovery must inevitably follow. If the sources of imbalance are too deep-seated and intractable, they may curtail or even override the forces of expansions.

The "recovery potential" of the economy is never crystal clear and is still somewhat obscure at present. Examination of a wide variety of business indicators highlights the "mixed" nature of recent trends. On the constructive side, the February gain in retail sales has been welcome news, for it is generally considered that the public's spending proclivities will play a vital role in determining the trend of business. Recent improvement in auto sales has reduced dealers' inventories, with deliveries of 17,804 cars a day in the final third of February, some 22% ahead of sales in the immediately preceeding weeks. However, this covers a rather brief period and comparisons are with depressed levels induced by bad weather. If car demands continue to hold up in the immediate future, it would be viewed as a constructive development. In this connection, it may be noted that the Federal Reserve's January survey of consumer buying intentions showed that plans to buy new cars were not much under the high levels of prosperous January, 1960. Another

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Jan.	155	157	168
Durable Goods Mfr.	1947-'9-100	Jan.	154	156	180
Nondurable Goods Mfr.	1947-'9-100	Jan.	155	157	159
Mining	1947-'9-100	Jan.	128	128	128
RETAIL SALES*	$ Billions	Feb.	17.8	17.7	18.1
Durable Goods	$ Billions	Feb.	5.5	5.5	6.0
Nondurable Goods	$ Billions	Feb.	12.4	12.2	12.1
Dep't Store Sales	1947-'9-100	Feb.	147	142	142
MANUFACTURERS'					
New Orders—Total*	$ Billions	Jan.	28.4	28.7	29.8
Durable Goods	$ Billions	Jan.	13.0	13.2	14.2
Nondurable Goods	$ Billions	Jan.	15.4	15.5	15.6
Shipments*	$ Billions	Jan.	28.6	29.1	31.1
Durable Goods	$ Billions	Jan.	13.3	13.6	15.4
Nondurable Goods	$ Billions	Jan.	15.3	15.5	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Jan.	91.9	92.3	90.5
Manufacturers'	$ Billions	Jan.	53.5	53.6	53.3
Wholesalers'	$ Billions	Jan.	13.2	13.2	12.7
Retailers'	$ Billions	Jan.	25.2	25.5	24.5
Dept. Store Stocks	1947-'9-100	Dec.	167	169	161
CONSTRUCTION TOTAL—t	$ Billions	Feb.	54.4	54.8	54.9
Private	$ Billions	Feb.	37.3	37.9	39.7
Residential	$ Billions	Feb.	19.8	20.4	22.5
All Other	$ Billions	Feb.	17.5	17.5	17.2
Housing Starts*—a	Thousands	Jan.	1098	984	1366
Contract Awards, Residential—b	$ Millions	Jan.	974	879	927
All Other—b	$ Millions	Jan.	1511	1840	1266
EMPLOYMENT					
Total Civilian	Millions	Feb.	64.7	64.5	64.5
Non-farm*	Millions	Feb.	52.3	52.6	53.0
Government*	Millions	Feb.	8.7	8.6	8.3
Trade*	Millions	Feb.	11.6	11.7	11.6
Factory*	Millions	Feb.	11.5	11.6	12.5
Hours Worked	Hours	Feb.	38.8	38.8	39.8
Hourly Earnings	Dollars	Feb.	2.32	2.32	2.29
Weekly Earnings	Dollars	Feb.	90.02	90.02	91.14
PERSONAL INCOME*	$ Billions	Jan.	406	407	396
Wages & Salaries	$ Billions	Jan.	271	271	268
Proprietors' Incomes	$ Billions	Jan.	61	61	59
Interest & Dividends	$ Billions	Jan.	42	42	39
Transfer Payments	$ Billions	Jan.	31	31	28
Farm Income	$ Billions	Jan.	17	17	16
CONSUMER PRICES	1947-'9-100	Jan.	127.4	127.5	125.4
Food	1947-'9-100	Jan.	121.3	121.4	117.6
Clothing	1947-'9-100	Jan.	109.4	110.6	107.9
Housing	1947-'9-100	Jan.	132.3	132.3	130.7
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	Feb.	110.8	112.2	110.8
Bank Debits*—g	$ Billions	Jan.	97.4	94.7	94.4
Business Loans Outstanding—c, u	$ Billions	Feb.	31.2	29.9	30.2
Instalment Credit Extended*—u	$ Billions	Jan.	3.9	4.0	4.2
Instalment Credit Repaid*—u	$ Billions	Jan.	4.0	3.9	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Jan.	4.8	7.6	4.9
Budget Expenditures	$ Billions	Jan.	6.5	6.8	6.2
Defense Expenditures	$ Billions	Jan.	3.7	4.2	3.5
Surplus (Def) cum from 7/1	$ Billions	Jan.	(6.5)	(4.9)	(6.9)

PRESENT POSITION AND OUTLOOK

favorable development has been the further gain in hours worked in February, placing this indicator at levels not reached since October of last year. On the Governmental level, spending will continue to mount in the months ahead. State and local outlays are rising steadily and Federal expenditures will increase moderately, even if some of the President's programs, which are progressing slowly through the legislative mill, fail of enactment. These signs of improvement, coupled with recent gains among such leading indicators as raw material prices, housing starts, nonresidential construction contract awards and the favorable psychological effects of rising stock prices, constitute the more constructive side of the business picture.

On a more neutral plane but with encouraging connotations for the longer term are recent trends in consumer debt and business inventories. Installment credit dropped in January, a downturn which was long overdue in view of the inordinately high level of consumer debt in recent months. A reduction in such debts has been a prerequisite to a healthy recovery in demand and the current reduction, if continued will tend to alleviate this problem. In inventories, liquidation continues, although it is concentrated in manufacturers' holdings of finished goods and retailers' stocks of autos and appliances. Although it may take some time for this corrective process to reduce stocks to optimum levels, there will probably be a slower rate of liquidation over coming months than the estimated $4.0 billion annual rate of inventory cutting that took place during the first quarter of this year. When inventory finally reaches a practical level, production will pick up, and the economy will begin to lift.

While it is true that sectors of improvement will provide upward impetus to the economy, we cannot overlook the fact that other areas may continue to exert a depressing influence. Most important in this respect, is capital spending, which has widespread impact on the economy as a whole. Recent surveys indicate that businessmen are planning to cut outlays for new plant

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter IV	1960 Quarter III	1960 Quarter II	1959 Quarter IV
GROSS NATIONAL PRODUCT	503.5	503.5	505.0	486.4
Personal Consumption	330.8	328.3	329.0	319.6
Private Domestic Invest.	66.0	70.8	75.5	70.8
Net Exports	4.0	3.7	2.0	—0.4
Government Purchases	102.1	100.7	98.6	96.4
Federal	53.3	52.7	51.7	52.5
State & Local	48.8	48.0	46.9	43.9
PERSONAL INCOME	408.5	408.0	404.2	389.0
Tax & Nontax Payments	50.4	50.5	49.9	46.5
Disposable Income	358.1	357.5	354.3	342.4
Consumption Expenditures	330.8	328.3	329.0	319.6
Personal Saving—d	27.2	29.2	25.2	22.8
CORPORATE PRE-TAX PROFITS		41.5	45.7	44.8
Corporate Taxes		20.3	22.3	22.1
Corporate Net Profit		21.3	23.4	22.7
Dividend Payments		14.0	13.9	13.8
Retained Earnings		7.3	9.5	8.9
PLANT & EQUIPMENT OUTLAYS	35.6	35.9	36.3	33.6

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Mar 4	301.8	298.3	323.8
MWS Index—Per capita*	1935-'9-100	Mar 4	215.9	214.3	235.8
Steel Production Index*	1957-'9-100	Mar 4	84.8	84.9	142.0
Auto and Truck Production	Thousands	Mar. 11	123	121	185
Paperboard Production	Thousand Tons	Mar 4	317	305	330
Paperboard New Orders	Thousand Tons	Mar 4	355	315	366
Electric Power Output*	1947-'49-100	Mar 4	277	269	274
Freight Carloadings	Thousand Cars	Mar 4	501	468	560
Engineerings Constr. Awards	$ Millions	Mar. 9	305	406	285
Department Store Sales	1947-'9-100	Mar 4	123	122	98
Demand Deposits—c	$ Billions	Mar. 1	59.3	59.4	59.5
Business Failure—s	Number	Mar. 2	408	348	299

PRESENT POSITION AND OUTLOOK

and equipment in the second quarter by $2.4 billion at annual rates, on top of an estimated $4.4 billion rate of reduction in the first quarter. Given businessmen's demonstrated proclivity for understating plans to cut spending, the April-June decline may prove to be as large as that of the first three months, and the existence of a good deal of unused capacity will tend to militate against a swift reversal of the downtrend in capital outlays. The housing field also seems to have lost the resiliency it displayed in past years, and even the inducement of lower mortgage rates has failed to stimulate demand to date. All in all, areas of weakness may counterbalance the moderate upward push that expanding sectors will provide in the next few months, and the economy could remain in an uneasy stalemate for some time to come.

* * *

U. S. Gold Holdings rose by $11 million in the week ending March 15, the first weekly increase since July, 1959. This sign of improved confidence in the position of the dollar may soon be reversed, however, if deficit spending is resumed and the current rise in commodity prices gathers steam.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Mar. 3	1961 Mar. 10
Composite Average	505.6	410.9	505.6	502.7
4 Agricultural Implements	474.0	346.4	450.9	450.9
3 Air Cond. ('53 Cl.—100)	162.0	105.8	159.6	162.0H
10 Aircraft & Missiles	1254.1	861.9	1254.1	1232.7
7 Airlines ('27 Cl.—100)	1044.6	736.7	1000.9	952.0
4 Aluminum ('53 Cl.—100)	521.3	354.5	425.5	433.5
5 Amusements	377.5	209.3	362.0	377.5H
5 Automobile Accessories	531.1	401.0	459.2	455.2
5 Automobiles	157.0	90.8	107.1	101.7
3 Baking ('26 Cl.—100)	44.6	34.9	44.6	42.2
4 Business Machines	1721.3	1159.1	1643.0	1721.3H
6 Chemicals	809.6	657.3	782.8	775.3
3 Coal Mining	36.0	27.2	35.0	34.1
4 Communications	242.3	199.9	237.9	242.3H
9 Construction	214.9	143.3	206.4	214.9H
5 Container	1064.7	824.6	970.4	961.7
5 Copper Mining	347.6	275.4	336.0	322.2
2 Dairy Products	220.2	146.8	214.1	220.1
5 Department Stores	170.6	135.2	170.6	167.6
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	418.6	418.6
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	357.8	364.6
3 Finance Companies	947.2	648.8	947.2	923.1
5 Food Brands	641.2	419.3	630.1	641.2H
3 Food Stores	288.1	232.1	272.9	288.1H

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 3	Mar. 10
High Priced Stocks	317.1	262.7	317.1	314.2
Low Priced Stocks	653.8	527.6	647.7	645.4
5 Gold Mining	1226.0	810.8	985.1	974.2
4 Investment Trusts	170.6	136.5	160.9	155.3
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1384.6	1349.4
7 Machinery	588.9	402.9	584.0	588.9H
3 Mail Order	474.0	364.2	461.8	474.0H
4 Meat Packing	298.3	223.9	298.3	287.9
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	175.5	167.1
9 Metals, Miscellaneous	399.1	313.3	382.7	379.3
4 Paper	1237.1	867.3	1080.3	1050.8
16 Petroleum	785.7	609.0	785.7	778.6
16 Public Utilities	432.3	341.6	432.3	432.3
6 Railroad Equipment	99.8	75.8	97.4	98.2
17 Railroads	70.1	49.9	58.1	57.6
3 Soft Drinks	1040.4	690.3	1031.0	984.2
11 Steel & Iron	464.9	325.4	407.3	393.7
4 Sugar	100.9	63.0	77.4	76.0
2 Sulphur	783.0	563.1	740.7	754.8
11 TV & Electron. ('27—100)	119.4	86.8	113.0	113.0
5 Textiles	237.0	183.3	233.2	231.2
3 Tires & Rubber	255.9	170.6	197.3	193.7
5 Tobacco	263.9	182.5	259.3	263.9H
3 Variety Stores	382.1	349.3	370.7	363.6
16 Unclassifd (49 Cl. — 100)	295.1	224.0	279.1	283.7

H—New High for 1960-1961

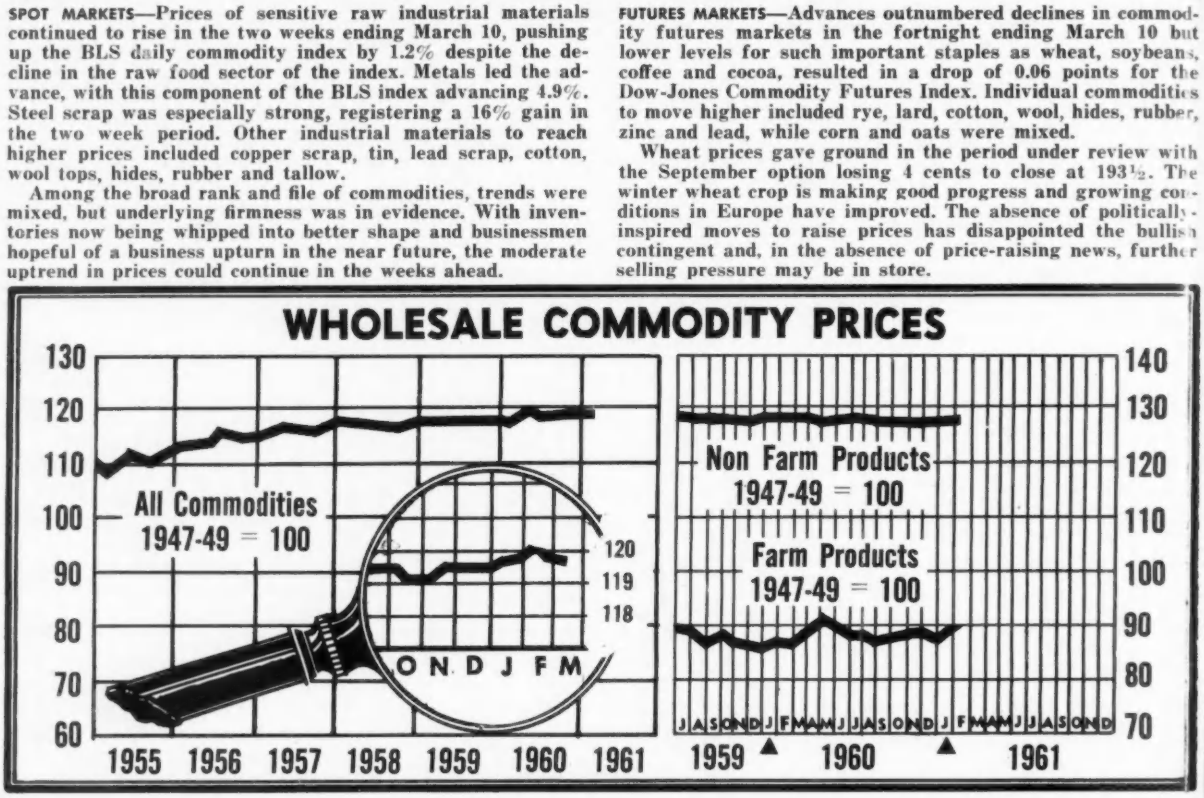
Trend of Commodities

SPOT MARKETS—Prices of sensitive raw industrial materials continued to rise in the two weeks ending March 10, pushing up the BLS daily commodity index by 1.2% despite the decline in the raw food sector of the index. Metals led the advance, with this component of the BLS index advancing 4.9%. Steel scrap was especially strong, registering a 16% gain in the two week period. Other industrial materials to reach higher prices included copper scrap, tin, lead scrap, cotton, wool tops, hides, rubber and tallow.

Among the broad rank and file of commodities, trends were mixed, but underlying firmness was in evidence. With inventories now being whipped into better shape and businessmen hopeful of a business upturn in the near future, the moderate uptrend in prices could continue in the weeks ahead.

FUTURES MARKETS—Advances outnumbered declines in commodity futures markets in the fortnight ending March 10 but lower levels for such important staples as wheat, soybeans, coffee and cocoa, resulted in a drop of 0.06 points for the Dow-Jones Commodity Futures Index. Individual commodities to move higher included rye, lard, cotton, wool, hides, rubber, zinc and lead, while corn and oats were mixed.

Wheat prices gave ground in the period under review with the September option losing 4 cents to close at 193½. The winter wheat crop is making good progress and growing conditions in Europe have improved. The absence of politically-inspired moves to raise prices has disappointed the bullish contingent and, in the absence of price-raising news, further selling pressure may be in store.



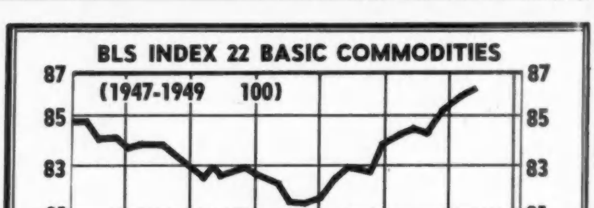
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Mar. 7	119.7	119.9	120.0	60.2
Farm Products	Mar. 7	88.9	89.3	90.4	51.0
Non-Farm Products	Mar. 7	128.2	128.2	128.6	67.0
22 Sensitive Commodities	Mar. 10	86.3	85.2	83.6	53.0
9 Foods	Mar. 10	78.5	78.9	73.6	46.5
13 Raw Ind'l. Materials	Mar. 10	92.0	89.7	91.1	58.3
5 Metals	Mar. 10	91.0	86.6	93.9	54.6
4 Textiles	Mar. 10	83.7	84.2	79.6	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



A First-Hand Report On Trends In 1961 Defense Expenditures

(Continued from page 23)

launching sites for intercontinental ballistic missiles will continue to be a multi-billion dollar program for several years, and this prospect has been a dazzling one for the nation's large construction companies. But the bloom is now off the rose, **with some of the missile base builders complaining to Congress that they are losing their shirts, if not their whole skin.**

The result will be a tightening up and a trimmer operation by both industry and Government; it will also mean a more expensive missile base program, since bidders will try to cover themselves for every conceivable contingency. **The latest award, $61 million for the first Minuteman base, was $10 million over the Government estimate.**

- **Among the construction companies reporting projected losses on missile base jobs are *Raymond International* (New York), $10 million; *Macco Corp.*, $6 million; *Western Contracting*, up to $10 million; *Blaw-Knox*, up to $3 million; and *Henry J. Kaiser*, $250,000. Companies with few or no complaints, who may be expected to get future missile site contracts, include *George Fuller, Peter Kiewit Sons, Morrison-Knudsen, Paul Hardeman, Brown & Root.***
- **Among the Administration's plans to pump additional millions quickly into the economy is the speedup of contract awards during the remainder of fiscal 1961. Some $1.3 billion of such accelerations, involving no new money but a faster placing of contracts, is already in the works, about half of this for short lead-time consumables that will require payment promptly.**

A more ambitious approach is to award up to $500 million worth of military construction contracts in the next several months, not originally planned for award before fiscal 1962. Missile base work comprises about half the military construction total. Congressional action would be required first. In our next report we will analyze the overall impact of President Kennedy's amendments to the Eisenhower defense budget. END

What 1960 Annual Earnings Reports Reveal

(Continued from page 14)

uniformly unfavorable results, except for **Celanese** (which is progressively diversifying itself out of that industry), which held sales within a fraction of 1% of last year's $265 million and was able to earn $2.07 a share (vs. $2.44 in 1959), a very creditable performance in the light of general conditions.

Industrial Rayon, on the other hand, saw sales flop to $47 million, a trifle lower even than 1958's sorry performance, and last year's small profit was succeeded by a heavy loss of $1.80 a share. Rayon has now conceded defeat in its struggle to survive as an independent yarn producer and will seek salvation as a division of Midland-Ross.

American Viscose, also on the diversification trail, was more severely hit than Celanese, sales dropping 14% to $206 million and earnings being sliced substantially in half, to $1.45 a share. Celanese did, however, increase its dividend income by exchanging its former joint interest in Chemstrand for a 13% interest in Monsanto Chemical.

Although **Bigelow-Sanford's** record last year represented no exception to the general trend, this carpet manufacturer did very creditably to avoid slipping back into a loss position, and its ability even to maintain earnings of $1.28 a share suggests that its major problem may have been solved.

No Common Trend in Metals

Even more than among other industries, results of the metals were widely divergent and can be reported only in terms of individual companies.

Aluminium Ltd., the large Canadian producer, provided a conspicuous exception to the rule in 1960 by lifting its earnings to $1.28 a share from 79¢ in 1959. Still, net income must cover considerable ground to catch up with the $1.85 profit record of 1956.

International Nickel, a second Canadian giant, reported record nickel deliveries of 351,880,000 pounds last year (or $505 million, including some other metals), and yet net fell to $2.76 a share from $2.92 in 1959. The explanation for this anomoly is that 51.4 million pounds of nickel sold derived from the United States government stockpile and was handled by Inco without profit.

Fansteel in the specialty metals group was affected by the general trend of business, notwithstanding its exotic product line, and earnings were sharply lower.

Consolidation Coal, the important bituminous miner, also reported lower profits, but in this case a decline from $2.23 to $2.10 could be viewed happily considering business conditions.

Anaconda, partly because of lower metal prices and partly because of protracted strikes at its major Chilean copper mines, experienced a considerable 28% drop in sales, to $86 million. Happily, the profit margin remained constant at 5.3%, and net fell not too disturbingly to $4.30 (still comfortably covering the $2.50 dividend) from $5.53 in 1959.

However, **Bridgeport Brass,** one of the leading fabricators, suffered much more severely with a decline in sales to $142 million from $173 million, while net per share plunged to $1.65 from $4.40. The company hopes to strengthen its position in the future by accelerating its gradual shift into aluminum, as copper-based products currently do not seem to offer much growth. Its proposed merger with National Distillers has been widely discussed.

Automotive Results Uninspiring

The automobile industry as a group had a rough year in 1960, although **Chrysler** was an exception. Rising against the trend, its sales climbed to $3.0 billion, up from $2.6 billion in 1959. A dramatic improvement took place in the income account with the $0.62 a share loss in 1959 replaced by a $3.61 profit in 1960.

Less fortunate were **White Motor** and **Mack Trucks,** both of whom published sharply lower earnings statements in 1960. In the case of the latter company, much of the blame can be traced to plant rearrangement expense and abnormal costs of new product development.

Electric Autolight managed to do more business in 1960, but at a much lower margin of profit.

Timken Roller Bearing also suffered a sharp setback last year.

Constructive Aspects

Two popular specialties deserve particular notice. **Eastman Kodak** suffered a minor profit squeeze, which limited the net income gain ($3.30 per share vs. $3.24 a year ago) on a sales advance of about 3%.

Minnesota Mining did better by lifting its profit margin as well as sales, although the earnings advance —to $1.38 a share from $1.25—was still relatively modest.

Industry Now Leaner — and Healthier

The books on 1960 have been closed and it is clear that over-optimism early in the year led to much frustration later on when anticipated demand failed to develop. At this time, caution is the watchword, and belt-tightening is the rule rather than the exception. But any sharp revival in business conditions superimposed upon the lean cost structures which industry has now achieved could lay the foundation for an excellent profits rebound. Perhaps this is the message which is currently fueling the sharp upward swing of stock prices. In any case, close attention to some of last year's lessons should produce some instructive results. END

*Note: **The coming issue of April 8, 1961 will contain comprehensive feature studies on Oils — Chemicals — Drugs — Paper industries and companies.***

Electronics . . . III — Business Machines

(Continued from page 31)

Outlook for Industry

Even with IBM's enormous head start there is ample room for others in the industry. Computers alone will represent at least a one billion dollar market in the private sector of the economy by 1965. And this makes no allowance for the multitude of other types of equipment that must be tied in with computers to make complete Data Processing systems. Accessories currently represent only about $30 million in annual sales, but this figure is likely to increase ten-fold by 1970 even in the absence of radical new developments.

The civilian market, however, is still a minor part of the field. Data Processing revenues, including military and foreign sales should cross the $2 billion mark in 1961. By 1965 some estimates place the demand for bank automation equipment at over a billion dollars. Obviously, an enormous market is opening up, even if its exact size is hard to pin down. Moreover, it is so big that IBM just can't get all of it.

Among IBM's more likely competitors, **National Cash Register** appears to have made the greatest progress. The company has several advantages over others in the field. First, its long record as a quality producer of cash registers gives its salesmen an entry into banks and retail organizations that other companies must begin cultivating now. Moreover, it has geared its Data Processing plans to take maximum advantage of this solid position. Among its major lines are entire bank automation systems and the highly successful Post-Tronic bookkeeping machine. Over 6,000 of these machines are now in operation around the country, and production is high enough to indicate $15 to $20 million in sales of these machines alone in 1961.

The success of the Post-Tronic gives National Cash a big edge, since it had designed computers and other data processing components to be used in conjunction with the machines already in use. With 1,400 in operation, National Cash has a big head start over its banking machine competitors.

High research and development costs have held National's earnings growth down in recent years, but in 1961 earnings spurted in the last half of the year and climbed above the previous year's $2.72 per share. In 1961, earnings should improve further. Production of electronic machines will be higher, and in addition foreign operations, which have always been large, show signs of even more rapid growth in 1961.

It appears that the company has a bright future. Next to IBM, it is the best situated abroad, it has a long standing reputation with its customers, and the additional advantage of solid earnings

potential from its conventional cash register line. As an adjunct to cash registers, the company is in the best position to benefit from automation in retailing—a field that is just opening up as a big industry.

The stock is too high for current commitments, but it is worth watching for lower prices.

Burroughs Corp. is National Cash's principal competitor in the field of bank automation. As a well established producer of accounting machines, it too has a long-standing reputation with banking institutions. However, a series of disappointments have delayed Burroughs' progress. For one thing, the recession led to delays in deliveries of some of its electronic equipment, while sales of conventional accounting machines fell in 1960. In addition, heavy financial charges for electronic development sapped results. Earnings were better than in the two previously very depressed years, but at $1.39 per share they were well below past norms of well over $2.00 per share.

1961 should be better. Backlogs have built up to the highest on record, and new orders are flowing in at a good clip. Unfortunately, finances will not permit too rapid a growth in earnings. As a matter of fact, some new financing may be necessary.

Specialty Companies

A few companies enjoy special places in the office equipment field. **Addressograph-Multigraph** is the major manufacturer of addressing machines, as well as the leading producer of duplicating and internal mailing machines. A healthy additional product line is a series of paper cards used in most data processing systems.

The company's growth has been exceptional. Sales rose from $65 million in 1954 to $156 million in 1960. Net income followed the same trend, climbing from 81¢ in 1954 to $2.02 in the year 1960.

Mailing and addressing machines are the bread-and-butter items, but the company's future will rest on electronic equipment designed to smooth office procedures. Capital charges will slow earnings growth for a while, but the company's future is bright.

At over 40 times earnings, however, the stock is in the stratosphere.

Pitney-Bowes is the largest producer of metered postal equipment. Earnings growth has been excellent, and should improve further since the company recently raised rental rates by 7 percent.

In 1960 revenues continued the pattern of rising in every year. Earnings, helped by the rate increase in a heavy backlog of orders rose to $1.32 from $1.05 per share in 1959. The same pattern will continue in 1961 but at 30 times earnings the stock does not fit in conservative portfolios.

Typewriters Hurt In 1960

Royal-McBee and **Smith-Corona Marchant,** the two companies that rely most heavily on typewriter sales for their earnings, each suffered recession blues in 1960. Sales rose, but special problems caused severe earnings declines for the companies. Royal wrote off its abortive electronic experiments to the tune of over 60¢ per share after taxes. This dropped net income to a nominal 28¢ per share from 62¢ a year earlier. Dividends were omitted after the first quarter and have not been resumed.

Although Smith-Corona lost 24¢ a share in the June 30, 1960 fiscal year, operations were profitable for the 6 months ended last December, notwithstanding special costs of consolidating typewriter facilities. Sales of the company's new low-cost electric typewriter are in a rising trend and its entry into the data processing field looks promising. The company believes that there is a large growth potential in the area of simplified and intermediate data control systems and is concentrating on these systems, rather than on the highly complex giant computers and "electronic brains" that receive most of the publicity. A combination electric typewriter and calculator has been introduced as a "small businessman's computer". Also, other machines have been developed to reduce office "paper work." The company has signed an agreement to lease a million dollar telecommunications system, which it will design and build, to the Chesapeake & Ohio Railway, and this may be a "breakthrough" in this field. With a number of irons in the fire and able management, the company may well fill an important role in the business machine field. END

"Insider" Transactions

(Continued from page 17)

Most Sales Widely Distributed

Among other companies in which rather consistent insider selling has taken place recently are **American Viscose,** where several officers have divested 4,700 shares since November and **Brunswick Corporation** (but the record is confused by an offsetting purchase of 9,250 shares in December). One thousand shares of **Continental Oil** were sold by insiders in November, 200 in December and 4,600 in January. After some purchases in the fall **Kerr-McGee** has also been divested mildly by its own officers during the same three months. And 4,150 shares of **Sunray** were distributed in November and another 1,400 in January. Generally, however, the oils have been free of any concentrated selling trends in the months most recently reported. **Hercules Powder** showed reductions of 2,250 shares in October, 1,500 in November and 3,110 in December; and **International Paper** was sold to the extent of 600, 1,500 and 2,900 shares in November, December and January respectively. Other leading papers were free of any similar pressure.

Two of the drug stocks, **Pfizer** and **Schering,** were also affected by some tendency on the part of their officers to lighten holdings. Smaller sales of Pfizer in preceding months were culminated by a reduction of 10,000 shares on the part of Director George Anderson (who retains 307,000 shares) in January. Several officers have been selling Schering, although not in heavy volume. **Colgate's** executives were apparently not frightened by the great success of rival "Crest" toothpaste, as no liquidations were reported there. And one large purchase of 4,600 shares of **Parke Davis** were made during December by Vice President Harold Burrows.

Phillip Morris has been sold in moderate volume during the three most recent months covered, but no similar tendency has been visible on the part of the other cigarette companies.

On the whole, however, sales have been widely distributed and it is difficult to relate them closely

either to individual companies or industries. Rather, they give the impression that they reflect a cautious attitude toward the market generally. Certainly, insiders are showing no frenzy to acquire additional stock; on the basis of evidence in the period covered by this study they cannot be contributing materially to the present heavy daily volume. They may not be wiser in foreseeing future market trends than many smaller investors, but their composite judgment deserves careful consideration. END

Electronics . . . II — Radio and TV

(*Continued from page 29*)

in 1960. Profits declined to about $5.11 per share from $5.63 a year ago, on roughly the same level of sales. Part of the trouble was a strike earlier in the year, but of greater importance was price weakness in tubes and other replacement parts.

Despite the disappointing 1960, however, Zenith remains a company with enormous profit potentials. It has consistently outperformed the industry, and has cut out a special niche for itself as the major producer of high quality television sets. This reputation has also helped sales in the more lucrative, but highly competitive hi-fi phonograph field. No significant earnings improvement can be expected in 1961, unless there is an unexpected resurgence of television purchases. By 1962, however, with color TV expected to contribute to earnings, and some benefits expected from Pay-TV, earnings should begin to trend upward again.

Zenith offer high quality, but at a high price at the moment. On market weakness, the stock could make an attractive long term commitment.

Clouded Outlook for Other Set Makers

The television manufacturing industry has been cut down enormously in size in recent years, and still the six major companies have profit margin troubles. It is too early to assess the ultimate impact of color—or other radical technological advances such as TV sets that hang on walls like a picture—but there is some future hope in the big replacement demand that should begin to materialize in the Sixties. So far all the television sets produced average out to about one for each home in the country. Hence, replacement demand alone should provide outlets for over 4 million sets a year, without any provision for two and three set homes.

There is nothing new or startling in these projections, but they indicate the base that has been established on which higher profits can be built if color or Pay-TV stimulates new demand. Even without new developments, however, the industry can look to some improvement in demand by the mid-Sixties when the rate of new household formations begins to pick up again from the trough it is in now.

Along with Zenith, **Motorola** should be a major beneficiary of any pick up in demand. Profits have been spotty in the past, but a change appears in the making. In spite of a poor TV year, operations in 1960 improved, although slackness in other fields led to a slight earnings decline. The company is making good progress, however, in building up new product lines in more profitable fields of endeavor.

Hi-Fi, and Stereo recording equipment has been built up to a profitable basis, while the radio lines have been downgraded because of low profit margins from their production. Military electronics is also profitable now, but of perhaps greatest importance is the company's major position as a manufacturer of microwave components.

For years, Motorola has specialized in Two-Way communications systems. Now, with microwave, its excellent reputation as a producer of private communications equipment is leading to good results from private users of microwave equipment. The unique properties of microwave transmission make it highly desirable for trucking companies and other firms with far-flung plant or equipment facilities. No one can tell, yet, how big the market will become, but even if it proves disappointing, there will be enough demand for equipment to satisfy Motorola, which is already one of the major producers.

Aside from microwave, Motorola has also embarked on a major semiconductor program, and has a reputation for high quality products in this exacting field. The semiconductor field is coming increasingly competitive, but as one of the biggest companies in the field, it should be able to survive.

Like other electronic stocks, Motorola is high in price. Earnings were only $3.40 in 1960 and the $1.00 dividend provided just a little more than a one percent return at recent quotations. Conservative investors, therefore, had best steer clear until the earnings potential has been more firmly established.

Magnavox also suffered a small decline in its television business in 1960, but much higher military shipments and sharply expanded profit margins, raised net income to $2.75 a share from $1.99 the year before.

Aside from its rapidly growing military business, Magnavox has also scored heavily in the high-fidelity market, capitalizing on its reputation as a producer of relatively few, but excellent pieces of equipment.

Magnavox, like Zenith, is a story of good management. In an industry that has troubled most companies, Magnavox manages to turn in good profits. Recognition of this fact, however, has driven the stock well out of the reach of income-conscious investors.

The Hard-Hit

Most of the other companies in the industry had a truly dismal year in 1960. The future demand

for television will help them, but their records are poor enough to warrant caution even at depressed prices.

Philco after a good recovery in 1959, slipped back sharply in 1960. Earnings fell to only 47¢ a share from $1.67 a year earlier, despite higher sales.

As a television set producer, Philco has proved a disappointment. However, other developments may lead to betterment in the future. Transistors and computers loom large in Philco's future, and should help separate the company's fortunes from the vicissitudes of consumer goods markets. A slight improvement, but nothing exceptional is expected. Hence, we would not look for resumption of dividend payments in 1961.

Admiral, also beset with appliance and television set woes, was able to report only nominal profits in 1960. The company confidently expected a continuation of last year's good results, but the recession, and the tailing off in demand for consumer durables put an end to the hopes.

Unless television sales pick up sharply this year—and there is little chance that they will—Admiral will probably operate in the red in 1961, and dividend payments are not likely.

In time the development of new products, and some increase in military production may help Admiral, but for now the outlook is bleak.

The Broadcasters

The television broadcasting industry also had a spotty year in 1960. **Radio Corporation's NBC** affiliate failed to live up to expectations, and **CBS** was hurt when the recession cut advertising revenues in the second half of the year. ABC - Paramount, however, continued to score impressive gains.

ABC - Paramount has been an interesting success story in the broadcasting industry. By concentrating on western and crime dramas it has attracted viewers away from the other networks, and must now be classed as a major network.

In addition to its telecasting activities, ABC is also the operator of the nation's biggest movie theatre chain. In the recent past, movie activities have been a drain, but with unprofitable theatres weeded out, this division is now contributing to profits.

Revenues rose for the eighth straight year in 1960 and profit margins expanded substantially, raising net income to new record levels. In 1959 ABC earned $1.88 per share on revenues of $288 million. In 1960 revenues rose to approximately $325 million and net rose sharply to $2.50 per share.

Until now ABC has claimed programming concessions because of its status as a poor cousin beside NBC and CBS. As a result, regulatory agencies have tended to ignore the virtual absence of public service programming on ABC. The company's recent profitability, however, and its rapid growth to major status may bring pressures for changes in programming. In anticipation of this, the company has retained James C. Haggerty, former White House press secretary, as news director, hoping to use his knowhow to build up a top level public service coverage.

With theatre operations showing good profits, and with television revenues expected to rise again in 1961, ABC should make further earnings progress. An increase in dividends would not be a surprise.

Columbia Broadcasting had a disappointing 1960. The recession prevented an upturn in sales from materializing to offset the high cost of both the political conventions and the election. In addition, the company's manufacturing operation suffered from the same forces that adversely affected the earnings of other producers of tubes and semiconductors. Prices were weaker than in the past, and demand was not as buoyant.

Broadcasting provides CBS with over 80 percent of its revenues, but the company is attempting to build up other revenue sources. A new semiconductor plant is being built in the hope of obtaining a bigger share of that market, and phonograph record sales are being pushed strongly. Records provide a lucrative sideline for CBS, and it is expected that the division will receive major managerial attention in the current year.

1961 should be a better year. The huge drain of political broadcasting will not exist, while sales should hold at levels approximating last year's figures. If the recession bottoms out by summer, moreover, it would bode well for the fall season, since advertisers will be in a more liberal frame of mind with business on the upgrade.

Summary

Television is now a mature industry. New growth is expected to be slow in the absence of revolutionary new products. Hence, both the set makers and the component parts manufacturers will find the pickings thin over the next few years.

Companies such as **Tung-Sol Electric,** with narrow product lines will find the going particularly rough. Last year's decline earnings to $1.37 from $2.70 a share a year earlier is indicative of the trend. **General Telephone & Electronics** is far better situated, however. Its Sylvania Division has the advantage of the huge backing of General's telephone operation. Hence, the company can concentrate on new product development without having to worry about minor changes in market activity.

Earnings were down slightly last year, but General has strong earnings potential. If color TV is about to blossom, Sylvania should be among the major tube manufacturers to benefit immediately. Hence, there may be a quicker return to higher profits than expected for General Telephone.

For the industry as a whole, however, 1961 will be another trying year. Most of the stocks are unsuited for conservative investors. END

Second Stage Of Growth For Electronics Industry?

(Continued from page 27)

performances in 1960 belong to the specialty companies, or those which were recovering from previous adversity.

Beckman Instruments, which specializes in medical electrical devices and precision analytical instruments, had a boom year in 1960. Sales climbed to about $55 million from $44 million a year earlier, and net income rose sharply to $2.24 per share from only $1.30 in 1959.

Beckman's outstanding performance can be traced to the fact that only 25% of its production is for military use, while the balance goes into the high profit margin private sector of the economy. The benefits to be derived show up in one simple figure. In 1957 profit margins were 5.3%. In 1960 they had climbed to over 16%.

Earnings should climb to close to $3.00 per share in 1961, but the stock, selling at over 40 times earnings is far too high for conservative investors.

Collins Radio, a major producer of navigational equipment, as well as other communications specialty items, also had a good year in 1960. Sales soared to $190 million from only $118 million a year earlier and net per share climbed to $3.04 from $1.95 in the previous year.

The company, however, will not repeat that performance in 1961, although the groundwork may be laid for even better growth in the future. In the current year, the company intends to raise its research expenditures to over $10 million, or a dollar per share more than in 1960. In all, research spending will take about $5.00 for each share of stock. The rise may cut earnings as much as 50¢ per share, but astute investors should recognize that a step backward is sometimes necessary before a big leap forward can be made. At about 15 times last year's earnings, Collins could be a rewarding commitment for patient investors. Unfortunately, no cash dividends have been paid in recent years, although stock dividends have been issued frequently.

Faltering Wonder Stocks

A few companies, other than Texas Instruments, with exceptional growth records, also stubbed their toes in 1960.

Minneapolis-Honeywell, a company with one of the most consistent profit margin records, felt the full impact of the housing slowdown, which cut the demand for heating system regulators. In addition, Honeywell has been spending a fortune on the development of electronic computers, although deliveries are still skimpy. Sales rose in 1960, but higher costs and the smaller demand for regulators cut profit margins substantially, reducing earnings to $3.75 per share from $4.20 in 1959.

Some recovery is expected in 1961, especially since about $50 million worth of computer systems are expected for delivery during the year. However, the slower home-building market will still keep net income below the 1959 figures. The stock sells at a very high multiple of earnings, but investors may get a chance to buy the stock if the company is forced (as seems likely) to resort to new financing in the near future to pay for its data processing developmental program.

Raytheon, whose good earnings growth came to a standstill in 1959, suffered a sharp setback in 1960. Reported earnings were $3.01 per share, down from $3.89 a year earlier. Removing special credits from both year's figures, the company earned about $2.00 in 1960 compared with $2.79 in 1959.

The disturbing thing for Raytheon is that earnings dropped so sharply despite a good increase in sales.

Company officials have launched a cost-cutting program designed to raise margins in the year ahead—a factor which combined with heavy defense contracts should raise earnings. Nevertheless, little more than $2.50 can be looked for. In addition, financial needs will militate against cash dividend payments, although further stock dividends can be expected.

Scattered Prospects

Several companies did well in 1960 and have even better prospects for 1961. **Litton Industries,** which has grown enormously through acquisitions, earned $1.76 in the fiscal year ending July 31, 1960 compared with $1.62 in 1959. In fiscal 1961, however, internal economies plus an expected big jump in sales should raise earnings to about $2.25 a share.

The stock sells at an extremely high price, reflecting the past record of excellent growth, and the probability that it will continue for at least a few more years. The company remains acquisition conscious, and has demonstrated its ability to raise earnings through this method. Nevertheless, conservative investors will have to watch Litton's pyrotechnics from the sidelines.

General Instruments, a major supplier of radio television components, recently merged with General Transistor. Semi-conductors now account for over 30% of sales, but most output is channeled into civilian, rather than military outlets. Hence, General has been showing higher profit margins of late. In 1959, margins jumped to 9% of sales, from only 6% a year earlier and net income climbed to $1.37 from 93¢. Integrating General Resistor held down earnings growth in 1960, but still per share net inched upward to $1.40. In 1961, with full scale operation expected from the transistor company, net may climb as high as $2.00.

The profit prospects for several additional electronics companies is contained in the acompanying table. All in all, earnings growth will be small in the year ahead. but there will be improvements, despite the generally poor outlook for business conditions through the first half of the year. END

Labor Lords Root For Central Government And More Taxes

(Continued from page 10)

tries, completely ignoring the fact that oil, gas and minerals are irreplaceable, unlike the capital assets of most corporations.

● The statement is made that "workers and other low and middle-income groups are now paying more than their full share of the tax burden", contrary to all evidence. All this is designed to yield greatly increased revenue without any change in basic rates, although nearly all experts agree that the rates themselves are just what need most desperately to be changed.

● The Committee makes very clear what its objectives are, however, when it states that the high revenue will enable the federal government to accomplish two objectives: "It will provide the financial support for any needed expansion in governmental programs in the field of national defense, national resources and welfare needs.

●To achieve a greater measure of equity, it will make possible reductions in tax burdens to those who most urgently are in need of such relief." It might be gently suggested that if tax relief were provided to those truly in most need of it, the resulting upsurge

in the economy would make all the Committee's reform suggestions absolutely unnecessary.

Advice on Foreign Affairs Too

Not satisfied with suggesting panaceas for the nation's domestic problems, the Committee turned to foreign affairs, and immediately contradicted itself by calling for greater trade with "practical, up-to-date, flexible safeguards" to protect certain U.S. workers and industries against injury from import competition. Since only industries hurt by imports would presumably qualify for the safeguards, the Committee's call for greater trade seems to be confined to greater exports.

● We are also exhorted to "safeguard absolute historic levels of production so as not to depress output and jobs below their historic norms," whatever that means. Other nostrums are suggested, all equally vague, but all unmistakably directed towards throwing more and bigger monkey-wrenches into the capitalistic machine in order to be able to criticize its operations more effectively—that same machine which has provided the American working-man with the highest standard of living in the world.

Labor Lords Stand Pat On Their Own Status Quo

Not a word was said at Bal Harbour, at least not a word with which the press was favored, about putting labor's own house in order. Graft, corruption, thievery, wildcat strikes, jurisdictional disputes, raiding, conflict between the craft and the industrial unions, all this was passed over in silence. Apparently finding its own troubles too difficult to solve, the labor movement has decided to solve those of the rest of the country. And yet the organized labor movement has been declining in membership since 1956. Could it be that the union members themselves are getting fed up? And what of the public? Six hundred men, striking for the right not to work, and get paid for it, tie up the greatest city in the nation. A small group of willful men strike in defiance of their union and cripple the nation's air transport system. In both cases the special pleader, Goldberg, "settles" the strike by forcing the capitulation of the employers. The public, happy the strike is over, does not realize the dragon seeds that are being sown, to haunt us many times over in the future.

The men of labor have told us their ideas about the future of the country. For that we must be thankful. We must know what those ideas are, because we are beginning four or eight years of an administration through which they will strive to transpose those ideas into reality. END

Transformation Of The Foods From Defensive To Growth Stocks

(Continued from page 35)

rise from $2.23 a bushel (near the government support price) in November 1960, to about $3.00 currently. Since its processed animal feed competes closely with substitute feeds, customers show a ready tendency to switch after seemingly moderate increases in price. Such companies as Allied Mills, by the benefit of its competent management which aptly handles the commodity purchasing problems, have been able to maintain their dividends despite low profit margins and little growth in earnings per share; these stocks are sometimes preferred for their yield.

By contrast, a company such as **Campbell Soup**, now priced as a low-yield growth stock, enjoys very considerable brand acceptance of its end product, and it is not dependent on one or two commodities. Thus Campbell's operating margin last year was 19.3% vs. 6.7% for Allied and 4% to 6% for most flour millers.

Other companies with strong brand acceptance, usually supported by heavy outlays for advertising, are **General Foods, Beech Nut Life Savers, Standard Brands, Gerber Products, National Biscuit, National Dairy Products, Heinz, Borden,** and **Quaker Oats.** *All of these companies* are showing a higher trend in earnings, with 1960 net higher than 1959. A major factor in their growth, has been the continual addition of new packaged products for the housewife, who apparently is developing an increasingly sophisticated taste, but who is also looking for ways to budget her time.

Producers of corn products and derivatives seem to be an exception to the rule that mass producers of food staples have low profit margins, for these companies have enjoyed relatively good profit percentages, and their record of recent years is one of impressive growth. To some extent they have been helped by the low price of corn coupled with stability in finished product prices.

Penick & Ford, fourth largest producer, has an exceptionally fine record although it derives 60% of its volume sales from bulk distribution of corn syrup, starches, and dextrins to industry. Earnings per share have climbed from an average of $1.45 between 1951-53 to an average of $3.35 in the 1958-60 period. This reflects a fine cost-conscious management that has expanded the more profitable consumer lines such as My-T-Fine dessert powders, maple syrup, Cocomalt, and Mint Frostings. The operating margin has been well maintained at 18%-20%.

Corn Products, the largest producer in the field, has also moved into consumer products, acquiring Best Foods in 1958, and now produces 30 grocery products which account for 45% of total sales.

A Few Comments on Grocery Chains

According to Supermarket Institute sales of supermarkets have increased from $2.3 billion in 1948 to $13.4 billion in 1959. While this past record is eye-catching in itself, it may still be misleading to label the field as one of dynamic growth. The expansion of supermarket sales reflects, of course, a trend toward the replacement of small markets with large ones, and while this process has not yet entirely run its course, the growth in supermarkets is now expected to continue at a much slower pace than during the 1950's. In some areas, such as in parts of suburban New York, Los Angeles, and Chicago, supermarkets have over-expanded temporarily and have been obliged to cut prices in a struggle to gain business. Lower profit margins resulted.

Blue Stamps

With increased competition a

number of supermarkets have resorted to trading stamps to increase sales, and from 1954 to 1956 the number of stores using this device increased from 18% to 39%, but in 1959 the ratio was down to 36%. Some stores that were formerly strongly opposed to stamps were finally forced to adopt this sales gimmick to remain competitive. Probably the staunchest opponent of trading stamps was **A & P**, yet in 1960 even this largest chain started using stamps in the Los Angeles area, where virtually every major store in the area was already using them. The cost of a stamp operation averages about 2% of sales, and in many cases it is financed by the customers themselves through higher prices on certain private brands or specialty items that are not readily comparable to lines carried in competing stores. Then too, those who don't bother to save the stamps contribute through their purchases without benefitting themselves.

Supermarkets Broaden Their Lines

Since the average shopper may go into a supermarket at least once every week compared to once every three weeks for a department store, the high flow of traffic provides an opportunity for non-food sales. Cosmetic items have been added profitably, where the mark-up for the retailer is considerably higher than for most grocery items—and where the turnover has also been good indeed.

Grand Union has added a wide range of kitchen and household products, and some supermarkets have even displayed major appliances. Normally, however, the more expensive the item, the less frequent the turnover, and hence a wider mark-up must be achieved to net a reasonable return on capital. Many markets have found that a vacuum cleaner, for example, will not yield the same return in dollars per square foot of floor space as would be achieved by selling sugar in the same spot. Thus, a high turnover item with a markup over cost of only a few percent is usually more profitable than occasional sales of a high mark-up item. For this reason the trend toward selling traditional department store products in a supermarket has already been reversed in some instances. Consumers continue to prefer the services that department stores offer for large items. On Long Island, N. Y., for example, a number of supermarkets stocked a line of womens' dresses and suits but withdrew the lines after a few months for lack of sufficient turnover. Apparently women prefer not to buy their clothes in a supermarket!

Supermarkets are themselves finding competition from a new source—the discount house. Many large new discount houses now have added grocery departments as well as other leased departments in an effort to develop a shopping center type of operation. The supermarket part of it is important since it brings a heavy traffic of shoppers to the center—especially if this discount supermarket offers real bargains.

Which Grocery Chains Are Doing Well?

On balance grocery chains had an off year in 1960 compared with 1959. **American Stores** and **ACF-Wrigley Stores,** however, have made sizable acquisitions of local chains, of which there are still many more to be picked up, and improved their operations to show an upward trend in earnings last year. Sustained growth in earnings per share was also maintained by A & P, 1960 representing the ninth consecutive gain over the previous year.

Food Fair, Grand Union, Kroger, and **Safeway** all had a year of leveling off in 1960, but may resume their growth if given an improving economy later in 1961 or in 1962. These four, along with **A & P** are favored for long term growth. While the price of **Winn-Dixie** discounts some of its growth potential, its fine management is continuing a policy of expansion in Florida, South Carolina, and North Carolina. The company has also branched out into most of the other southeastern states and has ventured north into Indiana.

END

As We Go To Press

(Continued from page 21)

of dedicated young people, not those just out for adventure.

In addition there must be a course of training in each sphere of activity, and one of the requisites should be the ability to speak the language of the country to which they are to be sent.

Although these young people may have abundant energy and idealism, it is to be doubted whether the applicants to the Peace Corps have the slightest idea of what it would actually mean to live at the level of the natives in most underdeveloped countries. **Actually, of course, they will not be living at the same level (many of them will be receiving, in addition, monthly checks from home). This in itself may create resentment and jealousies, which would provide a perfect opening for the Russians and Chinese to send their own "voluntary" Peace Corps abroad, and we may be sure that they would not be made up of idealistic and unknowledgeable college students.**

END

CORRECTION

Celotex Corporation and Certain-teed Products

In our March 11, 1961 issue, on page 653, in the table "Statistical Data on Leading Building Supply Companies", the names "Celotex Corp." and "Certain-teed" were inadvertently transposed so the figures appearing for each company actually applied to the other.

We regret this error and hasten to print the correct statistics as follows:

	Earnings Per Share			Div. Per Share			Recent	Div.	Price Range
	1958	1959	1960	1958	1959	Curr.	Price	Yield	1960-61
Celotex Corp.	$2.79	$3.77	$1.78	$2.20	$2.00	$1.00	31	3.2%	35⅛-20⅛
Certain-teed	.96	1.69	1.24	.60	[3]	.85	39	2.1	39½-11

[3]—Paid 1/6 share of Valspar Corp. stock.